REPORT

OF THE

PRICES SUB-COMMITTEE

OF THE

POLICY COMMITTEE ON AGRICULTURE &c.

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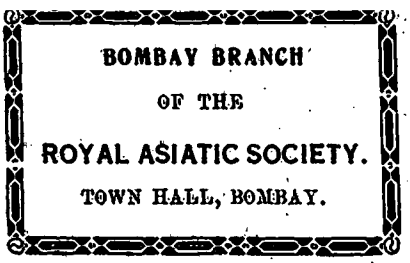

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PRICES SUB-COMMITTEE

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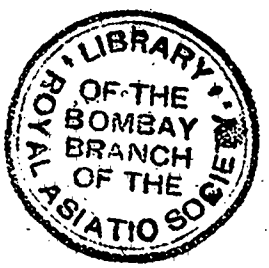

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PRICES SUB-COMMITTEE

OF THE

POLICY COMMITTEE ON AGRICULTURE, FORESTRY AND FISHERIES.

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SUMMARY OF THE REPORT.

Objectives.

1. It is necessary to raise the standard of living of the agriculturist and the agricultural labourer to the highest possible level by taking immediate steps : (*i*) to increase agricultural production to the maximum extent possible and (*ii*) to improve agricultural efficiency in all directions.

2. This calls for a policy of active State assistance to agriculture, adequate measures of agricultural improvement and an intensive programme of agricultural development and investment so as to develop the resources of the country. The resources are sufficiently large to enable the necessary expansion in production to take place.

3. A policy of active State assistance to agriculture has been followed in many countries since the depression of the 1930's. Some steps have been taken in this respect in India as well, particularly since the outbreak of the war. The Government of India have declared in their statement of policy on Agriculture and Food that the sum of their objectives is an expanding production and consumption and adequate purchasing power in the hands of the people.

Methods of assistance.

4. For achieving this objective it is necessary to have a coordinated programme consisting of a number of different measures, partly technical and partly economic, integrated in a suitable manner.

5. The technical problem is to secure an increase in the productivity of the land through an all-round drive for greater efficiency in agriculture. This calls for an intensive application of scientific knowledge to agriculture and a considerable expansion in the normal research, training and extension activities of the central and provincial departments of agriculture.

6. The economic problem is to bring about the largest increase possible in the national income from agriculture and to secure its equitable distribution. This can be achieved by reduction in the costs of production per unit of produce through greater efficiency of production, adjustment of rent and other charges, grant or subsidies of various kinds to low-income groups of producers

and reform of land tenure. A programme of general economic development creating fresh avenues of employment in large scale and small-scale industries, supported by a monetary policy designed to maintain employment, incomes, and purchasing power at a satisfactory level, are also essential steps towards securing this end. Each of these measures has its importance and their simultaneous adoption is necessary for the comprehensive development of agriculture.

The case for price-fixation.

7. In certain circumstances however it may be necessary to go further and adopt measures such as guaranteed prices so as to secure comparative stability of agricultural prices and incomes, in the face of seasonal and cyclical fluctuations as well as to establish a reasonable parity between agricultural and industrial incomes. The guarantee of an assured market for agricultural produce at a remunerative minimum price constitutes the most direct and effective form of assistance. It is an essential part of a nation-wide drive to raise agricultural productivity and output. Some of us, in fact, consider that all the other measures combined will not succeed in attaining the objectives in view unless the producer is guaranteed a remunerative minimum price for his produce.

8. Agriculture involves a high degree of risk, particularly under Indian conditions, where it is exposed to the vagaries of the monsoon and other climatic factors, as also to damage on a large scale by pests and diseases. Production is therefore subject to wide fluctuations. In addition, the agricultural producer is faced with the risk of a fall in prices which may be so heavy as to render agriculture unremunerative to the majority of producers. It is essential for the State to take such action as may be feasible to safeguard the producer from these risks and make his occupation less of a gamble. This is all the more necessary in India where agriculture is carried on by a large number of small and unorganised producers, who cannot adopt new techniques or invest in improvements or avail themselves of the facilities offered by the State, unless they have a reasonable assurance in regard to the price which their surplus produce will fetch in the market.

9. A policy designed to increase the national agricultural production to its optimum potential, connotes an "economy of abundance" in which there exists under certain conditions the danger of the supply of the produce

concerned exceeding the effective demand, with a consequent fall of prices. In the absence of any effective measures to stabilize prices at economic levels, the producer will have to suffer the penalty of receiving uneconomic prices for the produce he markets, in return for his enterprize in increasing the productivity of his land. This anomalous state of affairs can be rectified only by guaranteeing him minimum floor prices for his produce.

10. Again, the cultivator has to meet his fixed obligations such as land revenue, rent, interest and other charges from a fluctuating income which in most cases is barely sufficient for his subsistence. He is therefore usually in debt. He sticks to his occupation only because to him, agriculture is a way of life rather than a business for profit.

11. In these circumstances, the agricultural producer can be expected to co-operate more readily in a drive for the expansion of production and increase in its efficiency, if he has the assurance that his produce will in any event fetch a price not lower than a given minimum. The incentive offered by the guarantee of a minimum price is direct and general in its incidence, is easily understood by the producer and evokes his willing response. Such a guarantee has therefore to be an essential part of any policy of agricultural development.

12. The effective guarantee of a minimum price will not only introduce an element of stability in agriculture, but will also promote stability in other spheres of economic life, and will assist in securing a general rise in national income. The maintenance of the income of the agriculturist at a satisfactory level will provide a large home market for the products of Indian industries and encourage their development. It will maintain the revenues of the Provincial Governments, because of its direct effects on land revenue and water charges, and its indirect effects on the yield of other sources of revenue. It will increase the remunerativeness of public works in the sphere of agriculture. It will maintain the value of the only security that the agriculturist can offer, increase his credit and promote the development of marketing and credit organisations. The guarantee of a minimum price, which introduces an element of stability in agricultural incomes, is thus a measure of pivotal importance for general economic development.

13. It is of course necessary to ensure that the measures taken for the implementation of the guarantee are such that the benefits reach those for whom they are chiefly intended, *viz.*, the small cultivators and agricultural labourers who are particularly vulnerable to the hazards of agriculture and who have a stronger claim to State protection than the bigger landlords.

14. It is equally necessary to safeguard the interests of consumers by preventing prices from rising beyond a prescribed maximum. In addition to fixing a maximum price, the State should give special protection to the more vulnerable and poorer classes of society by granting, where necessary, subsidies on consumption.

15. In short the guiding principle of a policy of price support should be to fix prices within a range which would be fair both to the producer and to the consumer and be capable of being enforced in practice. This will necessitate a guarantee by the State to purchase all stocks offered to it at the minimum price and an undertaking to release stocks at a price not exceeding the maximum.

16. The adoption of a policy of price support in India should not present serious difficulties. Such a policy is already in force in many other countries such as the U.S.A., Canada, U.K., etc. The trend of world developments is to co-ordinate these national policies through international organizations like the F.A.O., and the proposed International Trade Organisation and Commodity Commissions in a manner which will reduce undue fluctuations and tend to stabilise agricultural prices on a world-wide scale.

17. Though our report concentrates mainly on the specific problems of price policy, we must emphasise the necessity of a simultaneous adoption of a wide variety of other measures of agricultural and general economic development and a complementary monetary policy. An expansion of gainful employment and an increase in real wealth must ultimately result in a ready market for all agricultural produce and in a permanent improvement in the standard of living of the agriculturist.

Principles of price fixation. (i) Fair price.

18. A fair price as we would define it, is such as would leave to the producer an income sufficient to maintain him and his family at a standard of life equivalent to that

enjoyed by comparable classes of the population. This implies that due allowance should be made for the costs of such goods and services as make up a reasonable standard of living for cultivators as a class.

19. A fair price should cover the costs of production of a producer who represents the bulk of the producers of the commodity concerned, *i.e.*, who has a representative size of holding and is wholly dependent upon such holding. The price so arrived at will not cover the cost of the marginal producer who may have to be given special assistance through subsidies where this is considered to be necessary.

20. Further, a fair price should be such as would enable the producer to pay a fair level of wages to the agricultural labourer, so that the latter also may enjoy a standard of life equivalent to that of other comparable classes of the population.

21. The determination of a fair price thus entails calculation of the costs of the different items which enter into the costs of production and the costs of living in different parts of the country. These costs vary widely according to soil and climatic conditions, crops produced, size of holding and several other factors. They can only be estimated by detailed and continuous enquiries specially planned and conducted with this object.

22. It is therefore necessary to take early steps to create a suitable machinery for the collection of data relating to these costs. Priority should be given to the collection of reliable data regarding the yield per acre of the principal crops so as to provide the means for assessing the expected progressive increase in agricultural efficiency. In the permanently settled areas, early action is needed for the collection of accurate data relating also to the acreages under different crops. The necessary machinery should be set up forthwith and placed on a permanent footing.

(ii) Fair parity prices.

23. Until the relevant data become available, it will be necessary to proceed on a less scientific basis and maintain agricultural prices at reasonable parity with agricultural costs. Agricultural prices refer to the prices received by the agriculturist for his produce. Agricultural costs refer to the prices paid by the agriculturist for the goods and services entering into his costs of production and his costs of living.

24. The most appropriate way of arriving at such a parity is to proceed on the basis of the relationship between the agricultural prices and the agricultural costs which respectively prevailed during a particular period in the past when such relationship was commonly accepted to be fair to all the interests concerned; adjustments should be made therein, where necessary in the light of changes in the basic factors affecting the costs of production and the costs of living. As however comprehensive data of these costs are not available, it is necessary to work on the basis of the available prices of a few principal components of these costs.

25. For this purpose the prices of cloth, kerosene, salt, gur, sweet oil, iron and steel (representing agricultural implements), bullocks, manures, oilcakes and fodder (representing cattle feeds), and other such items may be regarded as fairly representative of the variable items in agricultural costs. Suitable weights will have to be attached to these items, depending on the extent to which they normally enter into the costs of production and the costs of living. Due allowance will also have to be made for the fact that certain items in these costs such as land revenue, rent, irrigation rates and interest charges are normally relatively stable in character.

26. The most suitable period in the past for use as a base-period for purposes of parity is the quinquennium 1924-25 to 1928-29. The aim should be to maintain the same relationship between agricultural prices and the index of agricultural costs as prevailed in the base-period and to determine the fair prices accordingly.

(ii) Range of fixed prices.

27. It may not be possible however to enforce the fair prices, so arrived at, because of practical difficulties. It is besides difficult to peg market prices at any particular point, as distinguished from pegging them within a certain range. The policy should therefore be to fix minimum and maximum prices, on the basis of the fair prices.

28. The minimum and the maximum prices represent the wholesale prices in the mandis and the market wholesale prices will fluctuate within this range. The prices actually received by the producers may be somewhat lower, and the retail prices at which the commodity is sold to the consumers somewhat higher than the market wholesale prices.

29. In the transition period, during which the controls initiated during the war may continue, the minimum price should be fixed at not less than the fair parity price and all the produce that is offered to Government should be purchased by it at that price.

(iv) Minimum prices.

(a) *During the transition period.*

30. In the post-transition period, when normal supply and demand conditions may be restored, the minimum price may have to be fixed at a level below the fair parity price as indicated in paras 31 and 32.

(b) *During the post-transition period.*

31. In fixing the minimum price it will be necessary to take into account the relation between agricultural prices and the general level of prices in the country; the relation between price trends in India and abroad; any general assistance given to Agriculture by the State through other measures such as subsidies, remission of land revenue and other dues, etc; and above all, the financial resources available to the State for the implementation of the price guarantee.

32. In certain circumstances, it may be considered necessary as a matter of State policy, to reduce the general level of prices for overall economic reasons. Since the prices of foodgrains and agricultural raw materials occupy a crucial position in the domestic price structure, a reduction in agricultural prices may be a necessary preliminary to a general price reduction. Should such a reduction become necessary, it should not exceed 12½%, *i.e.* two annas in the rupee of the current fair parity prices in any one year, and once a reduction has thus been made, no further reduction should be effected during the crop year.

33. The consideration of the factors referred to in paras 31 and 32 may result in circumscribing the principle of fair parity prices to some extent and the minimum price fixed may consequently be lower than the fair parity price. In order that a limit may be placed to the reduction in the fair parity price on account of the factors mentioned, some of the members of the Sub-committee are of the view that the minimum price should not be fixed at a level lower than the fair parity price by more than 12½%, while other members of the Sub-committee are of opinion that no limitation should be placed upon the discretion of the price-fixing authority in this respect.

(c) *Rock-bottom minimum.*

34. The market prices should under no circumstances be permitted to fall in future below a rock-bottom minimum level. This limit is set by the fixed elements in agricultural costs and a fall in the market prices below this level will upset the economic balance of the country side. The sub-committee are unanimous in the view that the State should undertake the obligation to prevent prices from falling below such a rock-bottom minimum. Some members of the sub-committee consider that this undertaking should operate only for the next five years after which the position may be reviewed afresh in the light of the general principles laid down, while other members of the sub-committee consider that it should operate as a permanent part of policy. As regards the actual level of the rock-bottom minimum, some members of the sub-committee hold the view that it should be equivalent to the average price of the commodity concerned in the principal producing areas, during the quinquennium 1924-25 to 1928-29, *e.g.* Rs. 4/8/- per md. for wheat at Lyallpur with prices of other commodities in normal parity with it; other members are of opinion that it should be 25% above this average, *i.e.* Rs. 5/10/- per maund for wheat at Lyallpur with similar differentials for other commodities.

35. In certain circumstances, a serious fall in industrial prices may be brought about by extraneous factors and the parity approach to the problems of stability in agricultural prices may not succeed in avoiding a parallel fall in agricultural prices. Hence Government should adopt a policy of preventing any sudden collapse of industrial prices.

(d) *Time of announcement.*

36. The minimum price should be determined and announced well in advance of sowing operations. The price so announced should not be changed during the crop year. The position should be reviewed and a suitable minimum price fixed for the next year as may be warranted by changes in the determining factors.

(e) *Regional differentials.*

37. The minimum price for a commodity should be calculated for the principal producing areas. The minimum prices for other areas should be worked out by adding to this figure the normal costs of transport, marketing and other incidental expenses.

(f) *Quality differentials.*

38. The minimum price should normally be calculated on the basis of the fair average quality of the product. Suitable differentials should then be allowed in respect of different grades and qualities.

39. In order to protect the interests of the consumers the State should aim at maintaining the wholesale price below a pre-determined maximum. (v) Maximum price.

40. The maximum price should be based on the minimum price, making allowance for the normal trade differentials, the storage charges, and the market fluctuations in supply and demand. The margin between the minimum and the maximum price should not be so high as to encourage speculation nor so low as to hamper the market. Further the maximum price should under no circumstances be lower than the fair parity price. It should be fixed at 25% above the minimum price, or alternatively at the fair parity price, whichever level is higher.

41. The maximum price should be announced as soon as the crop prospects are known and in any case not later than the beginning of the harvest season. The price so fixed should normally remain in force for a year and should not be altered in the interval.

42. The maximum price for each area should be fixed on the basis of the minimum prices fixed for that area.

43. The maximum price should normally be calculated on the basis of the fair average quality of the product. Suitable differentials should then be allowed in respect of different grades and qualities.

44. The fixation of a minimum price will require that Government should guarantee to purchase all supplies offered to it at that price in order to counteract any tendency for the market price to fall below the prescribed minimum. Suitable arrangements should be made for this purpose at an adequate number of important marketing centres in the country, within reasonably easy access to cultivators. Principles of price enforcement.

45. In order to enforce these prices at the minimum level, it may be necessary for the State to regulate foreign trade (especially imports) by means of tariffs, quotas and State trading. Any international commitments undertaken by India in the future should also be consistent with the requirements of price policy. In order to ensure that the benefits of price-fixation reach those for whom it is intended, it may be necessary to regulate agricultural wages and rents.

46. The State should have special powers, (*a*) to regulate acreage under individual crops in a particular area or on an all-India basis, and (*b*) to enforce adequate standards of land management.

47. The fixation of maximum prices will require that when prices tend to move above the prescribed maximum, the State should provide supplies to the market by sales from its own stocks, at a price not exceeding the maximum. Suitable arrangements should be made for this purpose.

48. In order to prevent the prices from rising above the maximum it will be necessary for the State to have reserve powers, (*a*) to requisition stocks, (*b*) to regulate the distribution of supplies, and (*c*) to enforce control of prices by law, in an emergency.

49. The State has thus to be prepared to make effective both the minimum price and the maximum price, as circumstances may make necessary, and the machinery of enforcement should be so devised that it will be capable of effectively dealing with either situation.

50. The success of State Policy in maintaining market prices within the range set by the minimum and the maximum will depend largely on the capacity of the State to influence the supply in the market, by withdrawing a part of the supply through its purchases and by adding to the supply through its sales, as may be necessary. These purchase and sale operations involve the building up of national reserve stocks and also the regulation of imports and exports.

51. In addition to the reserve stocks which must be held by or under the control of the State for maintaining market prices within the range fixed, regard must also be had to the need for making provision for meeting emergency deficits. Owing to the vagaries of the monsoon, abnormal deficit in crop production may ensue in any year. These deficits, associated with famine conditions, cannot be met from the reserve stocks built up for the enforcement of the price policy without prejudicing its effectiveness. As imports to meet such emergencies cannot be assured at short notice, the State should hold additional emergency reserve stocks for this purpose.

52. It will not be possible in practice to maintain two separate reserves, one for the enforcement of price policy and the other for meeting emergencies. They should form one national composite reserve. This reserve will be exclusive of the current requirements which will be met by current resources, consisting of internal production *plus* net imports.

53. As and when internal production is stepped up so as to wipe out the current deficit which has to be met by imports, the reserve stocks should be built up from the internal surplus. In the interim period, the reserve stocks have to be built up from imports.

54. The financial resources necessary for the enforcement of price policy may be classified into fixed capital, working capital and operating costs. Fixed capital will be required mainly for the construction of the necessary storage accommodation. Working capital will be required for the holding of reserve stocks, for meeting the expenses involved in the turnover and for carrying out purchase and sale operations. Operating costs will include the interest on the fixed and working capital, the depreciation on and maintenance of godowns, the deterioration of the reserve stocks, transport and handling charges and expenses on account of staff, etc.

Price policy for food crops

55. The principles referred to above for the determination of minimum and maximum prices should be applied to the principal foodgrains, rice, wheat, jowar and bajra. Their prices are likely to influence those of other food crops.

56. There is difference of opinion in the Sub-committee regarding the size of the reserve stocks of foodgrains to be maintained for stabilizing prices and for meeting emergencies. It is felt by some members of the Sub-committee that the composite reserve stocks should be of the order of 1½ million tons, while other members of the Sub-committee are of the view that stocks of the order of 3 million tons are called for. The subsequent calculations are based on stocks of 1½ million tons, since the Sub-committee are agreed that stocks should in no case be lower than this figure.

57. The location of these reserve stocks will have to be determined after due investigation. A part of the

stocks may have to be kept in the surplus producing areas, and a part at selected ports. Suitable centres for locating these reserves will have to be selected and the actual size of the storage depots at each place determined in the light of the arrivals of grain and the normal turnover.

58. Adequate storage accommodation will have to be provided for the reserve stocks. Having regard to the arrangements needed for storage and the unequal distribution of stocks in relation to available storage accommodation as between different centres, it will be necessary to provide for an extra margin of storage for half a million tons of foodgrains. In other words, if the reserve stocks are 1½ million tons, it will be necessary to provide storage accommodation sufficient to hold 2 million tons.

59. The type of storage accommodation necessary will depend upon the proportion in which different grains are held in reserve, the suitability of bagged and bulk storage for each type of grain and the local conditions in the selected centres. The respective advantages of the Khatti and the elevator type of storage also need consideration. The State should construct storage depots for its reserve stocks at its own cost, and take steps to secure the construction of approved types of storage by the trade at important centres and by the railways at railway stations and main transit points.

60. Even with the most suitable arrangements for storage, provision will have to be made for the regular turnover of the stocks so that they may not deteriorate unduly. The method of turnover needs to be carefully worked out in the light of the condition of stocks.

61. The various problems relating to storage should be carefully examined in consultation with Provinces, States and the interests concerned.

62. The fixed capital for the construction of godowns for two million tons of foodgrains may be estimated at about Rs. 6.2 crores. The working capital on the basis of an estimated average price of Rs. 8 per maund for reserve stocks of 1½ million tons of foodgrains may amount to Rs. 32 crores. The annual operating cost may be estimated at Rs. 2.67 crores. It is not however possible to estimate the losses which may occur in an effort to maintain the minimum prices in the event of a world depression.

63. In view of the fact that the arrangements proposed will introduce an element of stability in the production of foodgrains of the value of Rs. 870 crores, and will provide a sense of security in the lives of a vast majority of the population, a capital investment of Rs. 38.2 crores and an operating cost of Rs. 2.67 crores a year is a relatively small price to pay, especially as over a course of years it may be recovered, in large part if not entirely, out of the profits of the operations.

Price-policy for commercial crops.

64. The principles of price-policy recommended by us will also apply to commercial crops, but the mode of implementation will have to be modified to suit the special circumstances of each crop. The prices of such crops are already being regulated in certain cases, and the existing schemes of regulation should be adapted to the principles recommended.

Price-policy for animal husbandry products.

65. The prices of the products of animal husbandry such as milk, fish and eggs and of other perishable agricultural produce such as vegetables and fruits, should be regulated by the Provincial and State Governments on a local or regional basis, according to the extent to which the markets for these products are localised. They should also take steps to improve cold storage facilities for such products and transport organisations should provide refrigerated transport. When these facilities have sufficiently developed, and the market for such products has become more integrated, the question of the regulation of these prices on an all-India basis may be examined.

Administrative machinery.

66. Suitable administrative and executive machinery should be set up in order to carry out the three-fold functions involved, *viz.*, (*i*) the formulation and laying down of the policy to be adopted, (*ii*) the determination of minimum and maximum prices, and (*iii*) the enforcement of the prices fixed.

67. For this purpose, an all-India Agricultural Prices Council should be set up consisting of representatives of the Central, Provincial and State Governments at ministerial level. It will derive its powers by voluntary agreement and cooperation between the Centre, the Provinces and the States. A convention should be established that the recommendations of the Council will be implemented by the member units.

68. The determination of prices is a semi-judicial function and the body entrusted with the work should be distinct from the body set up for the enforcement of prices through market operations. The All-India Agricultural Prices Council should therefore set up two bodies, one a Price Determination Commission and the other, a Commodity Corporation, both working directly under itself.

69. The Price Determination Commission should consist of three members including the Chairman, all of whom should be whole-time officers. The Chairman should possess wide judicial or administrative experience. The other members should be persons with qualifications in agriculture and economics, respectively.

70. The Price Determination Commission, after examining all the available data, should determine the level at which minimum and maximum prices should be fixed and submit its recommendations to the All-India Agricultural Prices Council. It should have under it a Bureau of Economics and Statistics for the collection, analysis and interpretation of all data bearing on the subject.

71. On the basis of the recommendations of the Price Determination Commission, the All-India Agricultural Prices Council will fix a set of prices, both minimum and maximum, for different crops in different regions, taking into account the principle of fairness, the difficulties of enforcement and other relevant factors. It should normally accept the recommendations of the Commission unless it considers that there are grave reasons for not doing so. After fixing the prices, it will require the Commodity Corporation to take necessary executive action for enforcing the prices fixed.

72. The Commodity Corporation should consist of three members including the Chairman. The Chairman should possess wide administrative experience. One of the members should have practical experience of commerce and business and the other of banking and finance.

73. The Corporation will take such measures as may be necessary to make the prices fixed by the Council effective in the market. It will regulate imports and exports. It will maintain the reserve stocks and ensure the renewal of the physical stocks from time to time. It will guarantee to purchase all that is offered to it at the minimum price

fixed and will undertake to sell from its stocks at the maximum price. In practice, it may have to operate as soon as market prices show a tendency to move beyond the range fixed. It will be free to buy or sell in the market at any price within the fixed range for building up or turning over its reserve stocks. Subject to these considerations, it will work on business lines.

74. In order to carry out these functions the Corporation should have a Board of Directors consisting of three persons including the Chairman. The affairs of the Corporation should be administered by a Manager under the general supervision and direction of the Board of Directors. There should be a deputy manager in charge of each commodity or a group of commodities such as millets and a deputy manager or deputy managers in charge of important functions such as finance, warehousing, imports and exports etc. There should also be a deputy manager in charge of each Regional Office of the Corporation.

An Advisory Committee, consisting of different representatives of the different interests concerned, should be set up for each commodity or a group of commodities and for each important function.

75. The Corporation should carry out its normal operations through duly appointed or licensed trade agents or through the staff of the Provincial and State Governments or through its own staff, as may be found convenient in each case.

76. The All-India Agricultural Prices Council and the administrative machinery that it may set up may have to incur considerable expenditure in order to enforce the minimum and maximum prices. The financial resources necessary for the purpose should be contributed by the participating Governments (Central, Provincial and State) in such proportions as may be agreed upon.

77. The administrative machinery should operate on business lines. It is suggested that such profits as may be made in the first five years should be allocated to a Reserve Fund while the losses, if any, sustained during the same period should be shared by the participating Governments in an agreed proportion. In subsequent years the losses, if any, should be met from the Reserve Fund to such an extent as may be determined by the Council, the balance being met by contributions from the participating Governments in a proportion mutually agreed upon.

78. The essential preliminary measures for the setting up of the All-India Agricultural Prices Council and the administrative machinery under it should be taken without delay, so that they may be able to take over their responsibilities at an early date. Some of the preliminary measures are :—

(*i*) The establishment of a Bureau of Economics and Statistics for the collection of reliable data of costs of production of crops, costs of living in rural areas, yield per acre, etc.

(*ii*) The procurement of the necessary quantity of reserve stocks of the foodgrains selected for price-fixation, *viz.*, rice, wheat, jowar and bajra.

(*iii*) The construction of the necessary storage accommodation.

(*iv*) The selection and appointment, in collaboration with Provinces and States, of suitable trade or other agencies for carrying out purchase and sale operations in their respective areas.

(*v*) The appointment of a staff for dealing with other essential matters connected with the setting up of the All-India Agricultural Prices Council.

79. In the meantime, *i.e.*, until the All-India Agricultural Prices Council is established and the necessary machinery set up, the system of work developed by the different governments in India during wartime should be continued, with such modifications as may be necessary in the light of the principles of policy recommended in this report.

Ancillary measures.

80. Though the price policy is conceived primarily in the interests of the actual tiller of the soil and the agricultural labourer, the expenditure of public funds that it involves will benefit both the producer and the consumer. In order to reinforce the price policy and to ensure that its benefits reach those for whom it is intended, the State should take such ancillary measures as may be necessary. These measures have been dealt with at length in the reports of a number of other committees and commissions, but the more important of them may be indicated in brief.

81. Steps should be taken to improve the existing system of the marketing of agricultural produce by measures such as the establishment of regulated markets, the licensing of dealers, the grading of produce and the development of co-operative marketing, so that the benefits of the guaranteed price may not be monopolised by the traders.

82. The business of money-lending should be regulated by appropriate legislation. In cases where the producer is required to part with his produce to his creditors, the produce should be valued at a price not lower than the guaranteed minimum price. The rural credit system should be improved by the extension of co-operative credit and the setting up of credit corporations. The Sub-committee on Agricultural Finance of the Policy Committee on Agriculture, Forestry and Fisheries has already made detailed recommendations in this connection.

83. The land tenure system should be reformed where necessary so as to give the tiller of the soil security against enhancement of rent and other dues, as also against ejectment, and provide him with sufficient incentive to effect improvements and increase the efficiency of production.

84. Legislative or other action should be taken to secure an adequate minimum wage to the agricultural labourer.

85. The producer should be required to maintain an adequate standard of management and utilisation of land. The State should acquire special powers to compel recalcitrant farmers and landlords to conform to minimum standards of efficiency and where necessary the State should take over the land for this purpose.

86. The State should organise a sustained drive to secure increased production and greater efficiency, by carrying out anti-erosion and soil conservancy measures, undertaking irrigation works, distributing good seeds, manures, implements and other agricultural requisites on a subsidised basis where necessary and providing technical advice.

87. The excessively small holdings so characteristic of Indian agriculture constitute a serious handicap to the

doption of improvements in farming technique. An ntensive effort should be made to consolidate fragmented holdings and to promote a change-over from individual farming of uneconomic small holdings on a family basis to farming of the entire village area on a co-operative basis.

88. A wide extension of education, suited to the rural environment should help considerably in decreasing the dependence of the producer on intermediaries of various kinds. The radio and the cinema can play an important part in the educational programme.

89. It may be necessary to provide for subsidised food distribution to low income groups and to specially vulnerable classes.

90. The success of a programme of development depends on the active and willing co-operation of the people. The cultivators should have the feeling of participating in a policy which is of their own making and which is not imposed from above. It is therefore necessary to constitute associations representing different agricultural interests, on a village, tehsil, district and province-wide basis. The organisation should be carefully built up from below, based on the village as the smallest unit. These associations should be organically related to the formulation and execution of policy and to the exercise of the special and reserve powers of Government, so that the measures taken may be based on the willing consent of the people.

Conclusion.

91. A policy of price-fixation is considered in some quarters to be superflous in the belief that the general scarcity of supply will prevent any large fall in agricultural prices. Although agricultural prices may be maintained for some time to come and the forces conductive to a general depression in prices temporarily held in check, the danger of a slump in agricultural prices will arise when conditions settle down and cultivation returns to normal in the countries affected by the war. In the circumstances, it will be unwise to rely upon an automatic maintenance of prices in the absence of coherent policy. A coherent internal policy is also necessary in order to link up with any international commodity arrangements to which India may be a party in the future. An administrative machinery for stabilising prices cannot be built overnight but will take some years before it can be fashioned

ab initio into an instrument of real effectiveness. A policy of price-fixation should therefore be adopted and the nucleus of the necessary machinery set up, without delay.

92. In the formulation of the programme, the objectives of policy as well as the machinery for its execution need to be adjusted to the facts of financial resources and administrative personnel. The difficulties arising out of these factors will be considerable in the initial years and hence a flexible programme of action is proposed. It is designed to begin with modest and limited aims, and to advance in gradual stages to its final objective.

93. The immediate objective should be to fix prices at a level which will be as fair as it is practicable to enforce, leading up to a level of prices which would be fair and equitable. In the initial stage the administrative machinery should undertake to support the prices of only a few commodities such as the more important cereals, namely wheat, rice, jowar and bajra and the more important commercial crops, namely cotton, jute and sugarcane. Then as it acquires experience and trains the necessary personnel, it should expand its scope of activity to other crops. Ultimately it may take over similar functions relating to animal husbandry products. The tempo of development from one stage to another will naturally depend upon the prevailing circumstances. In order that the interests of the different territorial units should be adequately reconciled, the programme should be implemented through mutual co-operation on the one hand between Central, Provincial and State Governments and on the other hand between Government and Trade organisations, utilising the normal channels of administration and business as far as possible.

94. The recommendations in the Report of the Committee should form an integral part of a general drive for agricultural and animal husbandry development. They should be considered along with the recommendations contained in other reports on connected problems, so that all of them taken together may provide a comprehensive plan of agricultural development.

INTRODUCTION.

Appointment.

The Policy Committee on Agriculture, Forestry and Fisheries at its meeting held from the 26th to 29th June, 1944, recommended that Government should guarantee to producers an assured market at a remunerative price for agricultural produce and that a sub-committee should be appointed to report as to how to fix a remunerative price for the produce and to secure an assured market for it. In accordance with the recommendation of the Policy Committee, the Government of India appointed a Sub-Committee vide Office Memorandum No. 28-16/44-P, dated the 23rd December, 1944, of the Education, Health and Lands Department. The sub-committee consisted of the following :—

(*i*) Sir V. T. Krishnamachari, K.C.S.I., K.C.I.E. (*Chairman*).

(*ii*) The Honourable Mr. Hossain Imam.

(*iii*) Sir Fazal I. Rahimtoola, C.I.E.

(*iv*) Rao Bahadur N.R.Samiappa Mudaliar, M.L.C.

(*v*) Dr. L. C. Jain.

(*vi*) Mr. Roger Thomas, C.I.E., J.P.

(*vii*) Khan Bahadur M. A. Momin.

(*viii*) Representative of Education, Health and Lands Department—Sir Pheroze Kharegat, C.I.E., I.C.S.

(*ix*) Representative of Finance Department—Mr. V. Narhari Rao, C.S.I., C.I.E.

(*x*) Representative of Commerce Department—Sir Theodore Gregory, Kt.

(*xi*) Representative of Planning and Development Department—Prof. C. N. Vakil.

(*xii*) Representative of Food Department—Dr. V. K. R. V. Rao.

(*xiii*) Representative of Reserve Bank of India—Dr. B. K. Madan.

(*xiv*) Representative of the Indian States—Sir Richard Allan.

Mr. W. R. Natu, Statistical Adviser to the Government of India, Education, Health and Lands Department, was appointed Secretary of the sub-committee.

Changes in membership.

2. Dr. V. K. R. V. Rao represented Food Department until the 2nd May 1946 and was then replaced by Mr. N. G. Abhyankar. Sir Theodore Gregory represented Commerce Department until the 28th September, 1946, after which date Mr. B. N. Adarkar was appointed in his place. Sir Richard Allan and Prof. C. N. Vakil ceased to be members of the Committee on termination of their service with the Government of Baroda and the P. & D. Department, respectively and no fresh representatives were appointed in their place. The sad death of Khan Bahadur Momin deprived the sub-committee of the benefit of his advice.

Terms of reference.

3. The terms of reference of the sub-committee were to consider (*a*) the principles on which producers' prices of agricultural produce, whether crops grown for industrial purposes or food, or the produce of animal husbandry of all description should be fixed; (*b*) the means by which such prices can be made effective and an assured market be provided, and to make recommendations. The sub-committee was to report on its terms of reference in relation to conditions in the post-war period (*i*) in which a substantial measure of Government control over the procurement, distribution and prices of commodities exists and (*ii*) in which such control has been relaxed or abolished and normal trade and marketing conditions have been restored.

Meetings.

4. The first meeting of the sub-committee was held at New Delhi on the 9th and 10th of March, 1945, when the Committee discussed the plan of its work and drafted a questionnaire to be circulated to (*i*) the Provincial Governments, who were asked to consult all important interests within their Province, (*ii*) bodies like the Indian Central Cotton and Jute Committees, trade associations, Chambers of Commerce and other organised bodies who were likely to be interested and (*iii*) important persons whose opinion was likely to be helpful. The second meeting of the sub-committee was held at Bombay on the 7th and 8th of May, 1945, at which there was a mutual interchange of views among the members of the sub-committee, on the different questions raised in the questionnaire circulated, and certain very tentative conclusions were arrived at. The third meeting of the sub-committee was held on the 17th and 18th September, 1945, at New Delhi at which the issues involved were considered further in the light of the report of the Famine Enquiry Commission and the replies received to the questionnaire. In accordance with the general trend of opinion revealed during the discussions in the meeting, the Secretary prepared a

draft outline of the report together with a summary of the main conclusions and circulated it to the members for the consideration of the sub-committee at its fourth meeting held in Bombay from the 25th May to the 30th May, 1946. After detailed discussions, the sub-committee revised the main conclusions, and directed that the draft report be prepared in the light of the revised conclusions. The draft report was considered at the fifth and final meeting of the sub-committee, held at Jaipur from the 22nd October to the 25th October, was given final shape and adopted.

Plan of the report.

5. We have divided our report into ten separate chapters. In the first three chapters we state the problem, survey the manner in which it has been tackled in other countries and examine the respective advantages of different methods of tackling it. In the fourth and fifth chapters, which are the crucial chapters, we discuss the principles of price-fixation and price-enforcement. In the sixth, seventh and eighth chapters, we apply these principles to the specific problems of food crops, commercial crops and animal husbandry products and recommend a price policy for each of these three groups of commodities. The administrative machinery necessary to give effect to our proposals is described in chapter nine, and the various ancillary measures necessary to reinforce the price policy are discussed in chapter ten. In the last and concluding chapter, we sum up our whole approach to the problem.

6. We have been asked to report, in our terms of reference, with respect to two types of conditions in the post-war period—firstly, in which a substantial measure of Government control over the procurement, distribution and prices of commodities exists and secondly, in which such control has been relaxed or abolished and normal trade and marketing conditions have been restored. Our proposals are based mainly on the assumption of conditions of the latter type. We are of opinion, however, that the general principles of policy which we recommend are capable of application to the former type of conditions as well, which will prevail during the transitional period, though the scale of operations and the machinery employed during the period may not be different from what they are at present.

Acknowledgments.

7. We wish to convey our thanks to the Provincial and State Governments, the official and non-official organisations and the individuals who have replied to our questionnaire and supplied useful data. We also wish

to express our thanks to the officials of the U. S. Department of Agriculture and the Ministry of Agriculture in the U. K. with whom our Chairman had useful discussions and who supplied us with relevant literature.

8. We are conscious of the delay in the submission of our report. As a result of the varied experience and outlook in our membership, there have been fundamental differences of approach and opinion amongst us on the many aspects of our difficult problem. The delay has been due to our anxiety to evolve an agreed practicable scheme for the solution of a problem which we consider to be one of the most crucial in the economy of the country, affecting the lives of many millions. We wish to make special mention of the valuable assistance given by two of our colleagues Mr. N. G. Abhyankar and Dr. B. K. Madan in preparing our report. We regret that some of the original members of the sub-committee have not remained with us till the completion of our work, for reasons already stated.

9. We desire to record our warm appreciation of the services rendered to the sub-committee by our Secretary, Mr. W. R. Natu. The subject of our enquiry has been one which has hitherto received comparatively little attention in India and he had to devote much thought and research to the measures of price stabilisation adopted in other countries so as to prepare memoranda on the question of their efficacy for the use of the sub-committee. There has also been the work of collating information on problems relating to agriculture in India, on which we have drawn freely in formulating the scheme suggested in our report. Finally, there has been the work of preparing a draft report, for our approval. Mr. Natu has discharged these difficult duties with great ability.

10. We also wish to express our thanks to the staff under the Secretary, in particular to Mr. J. S. Raj, who has been closely associated with the work and to the stenographers and other staff who have cheerfully put up with long and inconvenient hours of work.

CHAPTER I.

The Need for State Assistance to Agriculture.

Instability of the food economy.

11. During world war II, India experienced an unprecedented shortage of food, leading in some areas to actual famine. The immediate cause of the shortage was the cessation of rice imports from Burma, amounting to about 2 million tons annually, which played a disproportionately significant role in the dietary of certain vulnerable sections of the population in Bombay, Madras, Travancore and Cochin. The basic cause underlying such difficulties, however, is that even at the best of times agriculture in India is a gamble on the monsoon rains. The yearly crop is subject to large variations in yield. To take one instance, the domestic production of rice, has varied during the decade 1936-37 to 1945-46 between 23.8 million and 32.4 million tons*. Although the aggregate production of cereals does not show a variation of the same range it remains true that the year-to-year fluctuations in the production of crops in India introduce a great deal of instability into the food situation.

Deficiency of production.

12. The outbreak of war and the consequent dislocation of the means of transport no doubt intensified to some extent this inherent weakness of the food economy, but judged by any nutritional standards the prevailing conditions even in times of peace have always been bordering on famine. It was estimated by Sir John Megaw in 1933 that only 39 per cent of the people of British India were adequately nourished while 41 per cent came in the category of 'poorly nourished' and 20 per cent in that of 'very badly nourished'. There is no reason to believe that the position since then has improved. The fact is that the production of food has not kept pace with the increase in population. The area sown per head of the population has declined from 0.90 acres in 1911 to 0.72 acres in 1941† and there has not been any general increase in the yield per acre.

Targets of production.

13. In view of the deficiency in agricultural production relative to the requirements of a growing population, the necessity of securing an expansion of production is obvious. The Memorandum on Agriculture and Animal Husbandry prepared by the Imperial Council of Agricultural Research sets out, as the goal of agricultural

*Food Statistics of India, Statement No. XIV.

†The comparison refers to British India, exeluding Indian States *vide* Famine Enquiry Commission, Final Report P. 78.

policy, the following increases of production on the basis of the requirements of a balanced diet—Cereals 10%, Pulses 20%, Fats and Oils 250%, Fruits 50%, Vegetables 100%, Milk 300%, Fish and Eggs 300%, Oil-cakes and other concentrates 400%, and Fodder 55%. In our opinion, the expansion of the production of some of the non-food crops also is no less urgent than that of food. With an improvement in the standard of living, there will be increased demand for all types of goods and services and the production of raw materials must expand to meet the requirements of domestic industry and essential exports. If the requirements of oils and fats are to be met at the minimum level of 1.5 oz. per head per day, the production of oilseeds would have to be expanded by about 8 million tons. The normal production of cotton would need an increase of 3 million bales, if each person is to have a minimum of 30 yards of cloth as recommended by the National Planning Committee. The targets of production must allow for an increase in exports so as to assist the maintenance of a net balance of trade and to facilitate the import, on an increasing scale, of capital goods for industrial development. Even if it is decided to curtail the export of raw materials and, instead, process them before export, their production will still have to be expanded so as to feed our growing export industries. We understand that the various Central Commodity Committees are working out definite targets of production for the crops with which they are concerned. Whatever be the exact targets arrived at by them, it is common ground that a large expansion is called for in the production of all types of agricultural produce.

Potentialities of production.

14. Agricultural experts are agreed that the present development of India's agricultural resources is far below its full potentialities. Taking the normal period 1936-37 to 1938-39*, out of the total area (by professional survey) of 661 million acres, the net area sown amounted only to 281 million acres, and the cultivable waste other than fallow accounted for no less than 112 million acres. It is true that much of the land classified as culturable waste is known to be too poor to be actually brought under tillage, but even so, appreciable extension in cultivation is possible with the adoption of measures such as irrigation, drainage, land reclamation, soil conservation, erosion control, anti-malarial measures, etc. Apart from the scope for more extensive cultivation,

Vide Agricultural Statistics of India.

the potentialities of increased yield from existing cultivation are considerable. The average yield per acre practically for every major crop in India is known to be amongst the lowest in the world. The irrigated area is estimated at only about 23% of the total area sown and the rest depends upon the vagaries of the monsoon. The only manure customarily used is farmyard manure and even this is used only to a small extent, because most of it is needed for domestic fuel. The area brought under improved varieties of different crops was in 1938-39 only about 11.2%† of the total area cultivated. Besides the immense scope for development by the utilisation of improved seed, manures and water, considerable improvement will result from improved cultural practices, protection of crops from pests and diseases, and a wide variety of other measures. The potential increase in wealth that may be expected from an efficient system of agriculture has been picturesquely described by Mr. MacDougall in his Note to the Central Banking Enquiry Committee in the following terms : " If the output per acre in terms of wheat were raised to that of France, the wealth of the country would be raised by £669,000,000 a year. If the output were in terms of English production it would be raised by £1,000,000,000. In terms of Danish wheat production, the increased wealth to India would be £1,500,000,000."

Proposals for agricultural development.

15. The importance of undertaking large-scale measures for the improvement of agriculture is being realised of late and most of the 'Plans' before the public provide for considerable capital investment in agriculture. The Bombay Plan and the I. C. A. R. Plan, both of which cover a period of 15 years, contemplate an investment of Rs. 845 crores and Rs. 871 crores, respectively. The Gandhian Plan aims at an investment of Rs. 1,175 crores over 10 years and the People's Plan, which is the most ambitious, provides for a capital expenditure of Rs. 2,795 crores in 10 years. The plans include in their compass, a wide variety of projects such as those of irrigation, land reclamation, anti-erosion, drainage, fertiliser manufacture, cold storage and land nationalisation.

Lack of effective demand.

16. In spite of the large potentialities in increased crop production, even the bare requirements of the population have unfortunately remained unsatisfied hitherto. The targets of production calculated on the basis of standards

† Worked out from the table given in Famine Enquiry Commission Report, P. 152.

of living only indicate consumption requirements in an absolute sense. They can be reached in actual practice only if the levels of income and employment are high enough to absorb the supplies offered at a price which leaves a profit to the producer.

National income.

17. The level of income in India is amongst the lowest in the world. The per capita annual income was estimated at Rs. 65 for British India in 1931-32 by Dr. V. K. R. V. Rao while the estimate for the U.S.A. was Rs. 1,406, for the U.K. Rs. 980, for Australia Rs. 792 and for Japan Rs. 210 for the same year. The level of income for India has no doubt increased since 1931-32, but price levels and costs of living have risen in a much larger proportion. The Bombay Plan has estimated that on the basis of pre-war prices, it would cost about Rs. 65 per annum to feed an adult on a balanced diet. Since the estimate of total income was Rs. 65 per head per annum in 1931-32, which had to cover the expenditure not only on food, but also on clothing, housing and other requirements, it is no wonder that a large proportion of the population were undernourished.

Deficit agriculture.

18. The low level of incomes prevents the large potential demand in India from being actually effective in money terms and the prices of goods have to fall to a relatively low level before the produce can be taken off the market. When the prices are low the cultivator has no inducement to undertake agricultural improvements, and he aims at keeping his costs as low as possible so as to be able to eke out an existence even at the prevailing level of prices. In actual fact, as was revealed by the enquiry into the costs of production of crops conducted by the Imperial Council of Agricultural Research, the margin of profit calculated on an accounting basis is often negative and the producer continues in business only because his total income, in the form of wages for his labour, rent for his land and interest on his capital, enables him to eke out a meagre existence. Agriculture perhaps is the only business in which the producer continues to produce irrespective of profit, because to him, it is not the pursuit of an occupation but a way of living.

Growth of indebtedness.

19. This chronic tendency towards a deficit economy produces its own spiral of consequences which is of a self-perpetuating character. The fact that agriculture does not pay discourages investment and prevents the adoption of new techniques which, despite extra labour

and expense will lead to a reduction in costs. The continuance of production on traditional lines leads to the mounting up of indebtedness, which further damps the incentive to fresh investment and also raises the cost of finance. The volume of agricultural indebtedness which was estimated at Rs. 300 crores by Sir Edward Maclagan in 1911 has been steadily growing in size and was estimated by the Agricultural Credit Department of the Reserve Bank of India in 1937 to be in the neighbourhood of Rs. 1,800 crores. With regard to the volume of indebtedness in recent years, the Agricultural Finance Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries observe as follows :—

"It might be possible to hazard the opinion that the total indebtedness in terms of money stood in 1944 at a level lower than that in 1939 but that, at the latter date, forces were already in operation leading to an increase in the amount of this total indebtedness. The upward trend of the prices of agricultural produce appeared to be held in check. The rise in the level of agricultural costs had mostly caught up with the increase in the prices of agricultural produce and had in some instances even passed it. Thus while finance was now required for agricultural operations on a much larger scale the margin of profit which had during the period of 1941-44 led to liquidation of old debts had distinctly shrunk."

Need for State assistance.

20. The position which emerges from the above survey is that an insufficient overall supply, subject to wide variations from year-to-year, coupled with lack of adequate purchasing power, has resulted in a chronic state of under-consumption and a low standard of living for the bulk of the population. This highly unsatisfactory state of affairs cannot be remedied without active and large-scale assistance by the State. While the potential resources of the country are sufficiently large to permit the necessary expansion in production, it can only eventuate if adequate measures of agricultural improvement are undertaken. Agriculture, however, involves a high degree of risk, on account of climatic and biological factors, and it is carried on by a large number of unorganised producers. Measures of improvement will therefore not be undertaken in practice unless a certain degree of stability and a reasonable level of income are assured to the producer through a programme of State assistance. Measures of general economic development, such as the organisation of large-scale and small-scale industries, and the construction of public works will assist

by creating fresh avenues of employment for the population now surplus on land, and increasing the demand for agricultural products through a rise in the national income. It is however essential to take more direct measures to secure the adoption of more intensive agriculture on a scientific basis, and the State should launch an intensive programme of agricultural investment and development, directed towards improving efficiency, increasing production and raising the standard of living of the agriculturist and the agricultural labourer.

CHAPTER II.

Survey of State Aid to Agriculture.

Laissez faire.

21. It is manifest that agriculture cannot be established on a remunerative basis by the unaided efforts of the agriculturist himself. Until recently, however, the principle of *laissez faire* dominated State policy and most Governments did not look with favour upon a policy of economic intervention. The cost-price structure was considered to be the result of the market forces of supply and demand which reflected the capacity for production and the consumption requirements. It was only by giving full scope to the normal inter-action of these forces that the maximum interests of society were believed to be best safeguarded. The automatic adjustment of domestic prices by the forces of supply and demand and the automatic adjustment of international prices by the international gold standard constituted the sheet-anchor of the economic system. It was ignored that while agricultural prices were left to be determined by the automatic working of market forces, agricultural costs were already being determined by administrative measures, to the extent that they included such fixed charges as rents, land revenue and irrigation rates. The fact that these items, once fixed, remained relatively unchanged for long periods of time, imparted an element of rigidity to costs while the prices remained free to fluctuate in response to slight changes in supply and demand.

The world depression.

22. The world depression of the thirties impelled a change in outlook. The depression affected all countries and all occupations, resulting in widespread unemployment and distress. "Serious though was the material privation and want that unemployment frequently entailed—the undernourishment and malnutrition, the sacrifice of small comforts, the loss of homes representing the accumulated savings of years—, this was perhaps not so important as the moral and psychological cost—the helpless feeling of insecurity, the anxiety regarding the future of dependants, the frustration of idleness, the sense of counting for nothing in the community*". While the depression affected all countries, its impact was particularly severe on predominantly agricultural countries, where because of the relative scarcity of capital and land, a majority of producers live at or near subsistance level even in normal times. The steeper fall in the prices of agricultural goods, relatively to those of industrial goods, upset the balance

*"The Transition from War to Peace"—League of Nations.

of payments of agricultural countries, and the resulting decline in their purchasing power had its inevitable repercussions on the export trade of manufacturing countries. The social consequences of mass unemployment and mass poverty were so grave and fraught with such danger, that it was impossible for the Governments of the world to stand idly by and wait for 'natural economic forces' to save the situation. In the absence of effective international collaboration, each country took unilateral action in its efforts to alleviate distress and revive agriculture and industry within its own frontiers. The international gold standard was abandoned, and stability of the domestic price level became the cardinal object of the economic policy of most nations.

23. Once the domestic price level became the fulcrum of national policy, the question of agricultural prices attained special importance. This was so not only in the agricultural countries whose economy depended mainly on agricultural production, but even in the predominantly industrial countries, partly because of the vital role that agricultural prices play in the cost of living and partly because of the importance of a contented peasantry to the peace and stability of society. Though a few departures from the principle of *laissez faire* had occurred in certain countries even before the depression, such as the enactment of the Capper-Volstead Act and the Federal Intermediate Credits Act in the U.S.A., the formation of the wheat pools in Canada, and the administration of the Coffee Valorization schemes in Brazil, it was the depression which first inaugurated the era of active state intervention in the field of agriculture.

24. The question of the level at which agricultural prices should be stabilised naturally brought to the fore the relationship of prices to costs. Without an adequate margin of profit, production could not be maintained and a margin of profit could be ensured only by either a reduction of costs or an increase of prices. The measures of assistance adopted by the different countries therefore aimed at one or the other or both of these objects. The measures designed to reduce the costs of production took two main forms. There were firstly, measures intended to reduce fixed overhead charges by scaling down the size of debts, regulating the repayment of loans, and revising the terms of tenure. Secondly, there were measures calculated to restrict the rise in the costs of the agriculturist by granting subsidies of various sorts.

The measures designed to raise prices have also been of two types, some acting directly on the prices themselves and others acting primarily on the conditions of supply and demand and indirectly influencing prices. The fixation of prices was under the sole control of the State in certain countries while in others, the producers had a share in influencing the decisions of the State. In certain cases, as in the marketing schemes in the United Kingdom, the State simply authorised the producers to form groups and imposed the decision of the groups on the community. The fixing of prices could not, however, continue to be effective for long unless the prices fixed reflected the actual conditions in the market, and measures had therefore to be taken to influence the conditions of supply and demand in such a way that the prices legally fixed would be maintained in actual practice. In pursuance of this objective, buffer stocks were organised either directly by the State and State-sponsored organisations, or through the channels of trade itself so as to maintain a balance between good and bad years.

25. Though the specific measures taken have differed in character and had to be adapted to varying requirements, a policy of active State intervention in agriculture has been common to all. In the United States of America, the Agricultural Adjustment Acts of 1933 and 1938, and the Soil Conservation and Domestic Allotment Act of 1936 inaugurated an era of conscious adjustment of agricultural production to demand. In Canada, the Dominion Government initiated a market stabilisation programme through a central selling agency in 1929 when the Provincial Wheat Pools found themselves in difficulties and these measures, though avowedly of a temporary character, continued till 1935 when the Canadian Wheat Board was set up. In Australia, the Federal Wheatgrowers Relief Act was passed in 1933 setting aside a special fund for granting assistance to wheat-growers, so as to maintain a guaranteed price of 3sh. 6d. per bushel of wheat at seaboard. In New Zealand, in 1936, a minimum price for butter-fat manufactured into butter and cheese was guaranteed. In countries which were normally deficit in production, the measures adopted were designed to restrict imports and encourage domestic production. France, Germany and Italy, increased their tarrifs, tightened up their quota and exchange restrictions, and subsidised domestic products. Switzerland devised a system of price guarantees and milling premia which enabled her to raise 30% of her wheat requirements from within the country and to maintain the

domestic price of wheat at a level three to four times the world price. Even in the U.K., the traditional home of free trade, marketing boards of producers were set up for different commodities, with power to function as a monopoly for purposes of purchase and sale. The Wheat Act was also passed in 1932, fixing a standard price for home-grown wheat and making good the difference between this and the price actually received, by special deficiency payments.

26. As to the success of these measures, different opinions are expressed. The following is the general verdict of Mr. Lamartine Yates in his book "Commodity Control":—

> "The best proved capable of liquidating large surplus stocks and prevented the re-accumulation of fresh ones, though after 1933, the economic environments helped them considerably. They gave a much valued sense of security to producing countries; they claimed to have put a bottom in the market and in fact the 'bottom' in many instances turned out to be a highly remunerative price. Nevertheless, in doing all this they incurred the suspicion of having indulged in monopoly practices, of having devised restriction with the object of pegging prices at a high level and of having allocated quotas so as to give high cost producers a 'fair' share of the market. The truth is that the schemes were endowed with far less power than they needed, if they were to operate successfully and yet with far more power than could safely be entrusted to a body of producers, or producers' representatives, or producers' Governments' representatives."

In "Economic Lessons of the Nineteen-thirties", issued by the Royal Institute of International Affairs, the particular recovery which did take place in the U.S.A. is attributed directly to the expansionist measures of the New Deal.

> "For it was the Governments' net contributions to consumers' purchasing power, which were directly responsible for the rise in consumers' demand. They also prove beyond any doubt that a policy of Government deficit expenditure, even if that expenditure takes the form of distribution of money directly to consumers,

rather than of public investment expenditure, can lift an economy out of a depression."

The measures adopted in the U.K. also are stated to have "on the whole succeeded in restoring a fair degree of prosperity to most branches of British Agriculture. Output rose by one-sixth and the prices of nearly all products were considerably higher by 1937." With respect to the charge often made that these schemes resulted in more evil than good, the same publication says:—

> "It is true that the attempts of national Governments during and after the depression to protect their domestic economies and national economic interests by uncoordinated and too often short-sighted actions have often merely increased these maladjustments. But this by no means proves that, in the absence of any international system for the coordination of national policies to take the place of the old Gold Standard mechanism, any alternative policies would have achieved better results."

That measures improvised during a period of acute difficulty should have produced undersirable consequences in certain directions is only to be expected; what is remarkable is that they did succeed to a considerable degree, in pulling the economy out of the depression and setting it on the road to recovery.

27. The essence of the policy, however, whether it expressed itself through one type of measures or other was that the State took upon itself the responsibility for establishing prices at a level, which would be remunerative to the producer and be within the means of the consumer. Experience had showed that isolated action in the market proved ineffective and led either to an improvement which proved to be short-lived or to lasting disaster. There was a growing appreciation that it was not sufficient merely to influence supply and demand but that the available supply needed to be canalised by active intervention into appropriate channels of demand. The State therefore had to step in, as the obvious agency, to control the purchases and sales in the home market on the one hand, and to regulate international commerce on the other. The diversion of production called for compensation to the producers and the holding of buffer stocks called for capital investment. The

problem of ways and means and of the allocation of grants could be solved only through State agency. In many cases, the State discharged its functions through the agency of separate autonomous organisations so that effective supervision could be maintained over the utilisation of grants and the financial burden of the policy could be clearly assessed.

India in the world depression.

28. In this context, if we look to what happened in India during the depression, we see a dismal picture. The steep fall in agricultural prices in India as a consequence of the depression is clearly seen from the following table :—

INDEX NUMBERS OF WHOLESALE PRICES IN CALCUTTA.

(1929—100)

Year.	*Cereals.*	*Oilseeds.*	*Jute Raw.*	*Cotton Raw.*
1929	100	100	100	100
1930	80.0	81.3	66.3	62.3
1931	62.4	52.9	51.5	56.8
1932	54.4	49.0	47.3	63.0
1933	52.8	47.7	43.2	54.8
1934	55.2	59.3	41.0	50.0
1935	60.0	69.0	52.6	53.4
1936	63.2	65.2	52.6	61.0
1937	61.6	74.2	59.0	61.0
1938	57.6	68.3	51.5	45.9
1939	68.8	68.3	84.2	51.3

By 1933 and 1934, the prices of most commodities were reduced to half their 1929 level ; and though they recovered thereafter to a certain extent, the recovery was uneven and unstable with the result that even in 1939, prices were considerably below their pre-depression level. The fall in the prices of wheat and rice was particularly disastrous as these prices influence the prices of other foodgrains and the total acreage under foodgrains amounts to about 80 per cent of the total area under cultivation. In the case of commercial crops, the fluctuations in prices were even greater because these crops were subject to changes in international demand. According to an estimate made in the Review of the Trade of India, the value of principal crops in British India declined from Rs. 1,021 crores in 1928-29 to Rs. 474 crores in 1933-34. Thus between 1928-29 and 1933-34, the value of these crops declined by 53.6% which may be taken as a rough measure of the fall in the purchasing power of the agriculturist during this period.

29. The fall in prices of primary goods was larger than that of manufactured goods. This disturbed the price structure and the economy of predominantly agricultural countries like India. The terms of trade were altered to the disavantage of India, as can be seen from the relative trends of the prices of imported goods which are mainly manufactured and the prices of exported goods which are mainly agricultural.

INDEX NUMBER OF IMPORT AND EXPORT PRICES

Year.	*Exports.*	*Imports.*
1929	100	100
1930	81·9	92·3
1931	57·9	78·8
1932	55·5	81·9
1933	54·6	75·3
1934	54·1	71·8
1935	59·9	71·8
1936	58·9	71·8
1937	61·5	84·9
1938	59·9	83·5
1939	61·5	80·5

While the fall in prices of exports was of the order of 45·9 per cent between 1929 and 1934, the fall in the prices of imports was only 28·2 per cent over that period. The recovery in the prices of exports was also much slower and in 1939, while the prices of imports were 19·5 per cent below the pre-depression level, those of exports were still 38·5 per cent lower. This disparity in the fall of prices further reduced the purchasing capacity of the people and adversely affected their standard of living. As Sir George Schuster, the then Finance Member of the Government of India, remarked "India felt the severity of the fall in the case of what she had to sell, but did not obtain a corresponding advantage of the fall in prices of what she had to buy". From 1930 onwards the economy was maintained by exports of gold on a considerable scale, thus compensating for the heavy decline in the balance of trade in merchandise by the export of treasure.

30. The agriculturist was particularly hit because while the collapse of prices cut into his receipts, the incidence of his obligations in the shape of land revenue, rent, interest charges etc. remained normally unaltered except for such remissions of taxation as were granted.

He had to sell a larger proportion of his produce by cutting his own consumption and expand production wherever possible so as to maintain his income. Unemployment and poverty amongst the villages was beyond description. The peasantry had to sell such capital as they possessed in the form of land and ornaments and contracted fresh debts as long as lenders were willing to lend. With falling prices, the value of land which was the only security they could offer also declined and credit dried up.

31. The effects of the depression were more severe in India than in other countries, both in the depth of the fall in prices as well as the period over which it lasted*.

INDEX NUMBER OF WHOLESALE PRICES.

Year.	*India. Calcutta.*	*U.K. Board of Trade.*	*U.S.A.*	*Japan.*
1929	100	100	100	100
1930	82	88	91	82
1931	68	78	77	70
1932	65	76	68	77
1933	62	76	69	91
1934	63	78	79	92
1935	65	79	84	94
1936	65	83	85	97
1937	73	96	90	118
1938	68	91	82	131
1939	77	91	81	140

The Indian Price level fell by 38 points in the worst year of the depression while the prices in U.K. fell by 24 points, in the U.S.A. by 32 points and in Japan by 30 points. While the worst was over in the U.K., U.S.A. and Japan by 1934, Indian prices continued to remain depressed practically till the outbreak of the war. In a sense, conditions in India never recovered from the depression as such, and but for the superimposition of the effects of war-time expansion of currency, it is doubtful if they would have recovered at all. Even after the outbreak of the war, it took three years before Indian prices rose to the pre-depression level.

32. One of the main reasons for the protracted character of the depression in India is to be found in the

*Report on Currency and Finance, 1937-38.

negative character of State policy. While other Governments were taking active measures for raising prices and maintaining purchasing power, State policy in India concentrated on remission of taxation and retrenchment of public expenditure. The total Provincial expenditure on public works declined from Rs. 872 lakhs in 1929-30 to Rs. 578 lakhs in 1932-33. Until 1937, when popular ministries took over control in the Provinces, few attempts were made even to reduce the fixed charges of the farmer by scaling down debts or lowering rates of interest or by declaring a moratorium. The Government of India imposed protective duties on wheat and wheat flour and negotiated the Ottawa Pact, embodying the principle of Imperial preference, but little was done by way of monetary policy to lift the economy out of the depression. There was some slight relief when the U.K. went off the Gold Standard and the rupee, linked to sterling, automatically depreciated in terms of gold, but the sterling link prevented the rupee depreciating to a level where it would have significantly influenced the price level. India participated in the international restriction schemes for tea and rubber, and attempted to persuade the domestic cultivators to restrict the cultivation of jute in order to support the prices of these commodities. The only instance of direct action calculated to maintain the incomes of agricultural producers however was the enforcement of minimum prices for sugarcane. In 1934, the Sugarcane Act was passed which empowered local Governments to declare any area a controlled area and to fix the minimum price of sugarcane within that area. The U.P. and Bihar Governments thereupon fixed minimum prices for sugarcane based on a sliding scale varying with the price of sugar realised by the mills in each fortnight of the working season. Even after the popular ministries were formed in the Provinces, on positive measures for maintaining purchasing power were adopted during their brief tenure of office, and they concentrated on a programme of legislative measures for conciliation of debt, regulation of money-lending and interest rates, and reform of tenancy and land revenue. Thus the period of the depression which marked the beginning of a new era of state responsibility and planned assistance in other countries is characterised in India only by a continuance of the old-time policy of *laissez faire*, except for a few feeble attempts at control. India perhaps was one of the few countries in the world where so little positive action was taken by the State to meet the depression.

Character of anti-depression measures.

33. Even in countries where measures of State intervention in agriculture were adopted, they were not the result of any deliberate policy based on definite objectives but were temporary expedients improvised piece-meal to deal with sudden emergencies under the stress of popular pressure. The poverty and unemployment generated by the depression were so widespread and persistent that no responsible Government could fail to take remedial action except at its own peril. As the depression spread from one sector of the national economy to another, efforts had to be made to patch up the situation and localise its effects. As a result, each country in due course had under operation a whole facade of controls which were forced upon the State by the sheer pressure of circumstances. They were brought on by the emergency; and it was fondly hoped that they would soon disappear with the emergency. They were essentially temporary measures of relief and salvage, designed to be withdrawn when conditions returned to normal.

Continuance of anti-depression measures.

34. In actual fact, conditions never returned to normal. Though the depression in many countries reached its bottom in 1934 the recovery was so slow and protracted that any abandonment of State assistance would have reversed the tendency of recovery itself. The emergency measures therefore continued in operation, even after economic conditions had turned the corner, with the object of accelerating the pace of recovery. Besides, the withdrawal of State control was not a practical proposition in the absence of an international understanding which would promote orderly world economic development. The atmosphere was already clouded by the growing political tension which was pointing unmistakingly towards an early flare-up.

Policy during war-time.

35. After the outbreak of the war, various measures of State intervention already in existence had to be welded into an efficient instrument for the prosecution of the war. The regulation of agricultural prices became one aspect of the general regulation of economic life, and aimed at securing the fullest utilisation of the productive resources in the war effort. Apart from the demand for raw materials essential for the production of manufactured goods, the increased production of food and its equitable distribution became matters of fundamental importance. Besides the problems of feeding the armed forces, an adequate supply of food

to the civilian population was an essential condition in the maintenance of general morale. With growing public expenditure and expansion of currency, the major problem in the sphere of prices was to maintain prices which will be high enough to evoke the desired quantity of production and yet low enough to place the essential foodstuffs within the reach of the ordinary consumer. The situation had to be tackled by a variety of measures including the fixation of minimum and maximum prices, the subsidisation of the cost of living and the rationed distribution of food.

36. In the U.S.A., the price policy was executed by the Office of Price Administration, the office of War Food Administration, the Commodity Credit Corporation and other agencies of the State. In Canada, the scope of the activities of the Canadian Wheat Board was extended to include other commodities, special product boards were set up to handle particular commodities, and a number of procurement bodies were created to effect purchases on behalf of the different ministries in the U.K. In the U.K., the Ministry of Food acquired a monopoly over practically all imported and home produced foodstuffs and while producers' prices were maintained high enough to stimulate production, the cost of living was held at a reasonable level by a policy of subsidies.

India during war-time.

37. The outbreak of the war involved India in grave difficulties. Firstly, the loss of export markets created a serious situation for Indian staples. The loss of trade with Europe alone amounted to over Rs. 30 crores or 1/6th of her total overseas trade. Groundnut, jute and cotton were the commodities most affected. The entry of Japan in the war further closed the door to about Rs. 11 crores worth of raw cotton. Steps had to be taken to find alternative markets for these products or to reduce their production, if their prices were to be protected from collapse. Secondly, there were the difficulties arising out of the shortage of food which became particularly acute after the entry of Japan in the war and the fall of Burma. Thirdly, there were the problems arising out of the strategic position that India occupied as an important base of supplies for the Allied forces.

38. After the entry of Japan in the war the food situation became grave, and measures had to be improvised to meet the emergency. The growing

expansion of currency was resulting in soaring prices, and the situation was aggravated by speculation in the stock and commodity markets, transport difficulties and hoarding. Prices were no longer the outcome of the forces of supply and demand and were powerfully influenced by administrative action. The State was compelled to intervene actively in the economy of the country, and a complicated machinery for regulation of production, movement, distribution and consumption of different types of produce gradually came into existence. A statutory wheat price was imposed by a notification in December, 1941. This caused an artificial shortage of wheat and the notification was withdrawn in January, 1943. Attention was later concentrated on the enforcement of statutory maximum prices which were to be fixed for each crop season on the basis of a fair return to the cultivator. As a result of the Kharif Prices Conference held in January, 1944, maximum prices for jowar and bajra in the primary wholesale markets of surplus millet-producing areas were notified. Soon after, acting on the recommendations of the Price Advisory Committee which was set up in the Food Department, statutory maximum prices for wheat, barley and gram were also fixed. Subsequently, realizing the importance of assuring a fair minimum to the cultivator, the Government guaranteed to purchase all wheat of fair average quality offered in the assembling markets of the Punjab, U.P. and Sind at Rs. 7-8-0 per maund. In May, 1944, a similar guarantee was extended to all jowar and bajra offered in the main producing areas, at the floor prices of Rs. 5-8-0 and Rs. 6-0-0 respectively throughout British India, except in Bombay where special prices were announced. Since then, the Government of India have endeavoured to keep prices within a range fixed by statutory maxima and minima, combined with control of procurement, movement and rationing. In addition to controlling prices, both the Central and Provincial Governments have encouraged agricultural production by direct subsidies for the supply of seeds, manure, irrigation wells, etc., under the 'Grow More Food' Campaign. Among Commercial crops, prescribed price brackets have been operative in respect of cotton, jute and sugarcane, and Government have undertaken to support cotton prices by a buying programme when they threatened to fall below the guaranteed floors. Thus, during the war, state policy in India comprised a wide variety of measures in the sphere of agriculture, constituting an important step in the direction of planned assistance to agriculture.

39. It is in the light of this history of State assistance that future policy has to be decided. A policy of maintaining a stable price level came to be forced upon the State as a goal of economic policy only during the world depression when unemployment and distress reached limits which no Government could look upon with equanimity. Before recovery was complete and the policy could be reconsidered, the war intervened and it had to be orientated towards the requirements of the prosecution of war. Now that the war has ended, the policy has to be refashioned to meet the changed requirements of the post-war period. Post-war State policy.

40. The immediate problem is one of effecting a smooth transition of the economic system from a war to a peace basis with the least dislocation and with the withdrawal of all unessential controls. The war itself has let loose forces which make for instability in the post-war world and if unemployment and depression are to be avoided, policies must be devised in advance. Apart from the physical devastation suffered by a number of countries, even the relatively prosperous areas will find that many industries which have been built up owing to the shortages induced by war-time conditions can no longer be maintained. The problem of fitting economies which have tended to grow more and more self-sufficient into a pattern set by the dynamic development of world forces is bound to be painful and protracted. It is likely to be rendered even more difficult by the problem of re-settling millions of ex-soldiers and by the political and social chaos that still obtains in large areas of the world. The forces making for a depression are already struggling to break loose and will strain the resources of the State to the fullest if they are to be held in check.

41. Even apart from the problem of preventing serious dislocation during the transition, the United Nations are committed to the long term objective of maintaining full employment and raising the standard of living of their people. The fifth clause of the Atlantic Charter recognises the object of "securing for all, improved labour standards, economic advancement, and social security". The Final Act of the United Nations Conference on Food and Agriculture also recommends that

> "the Signatory Governments should affirm the principle of mutual responsibility and co-ordinated action, (*a*) to promote the full and

most advantageous employment of their own and all other people and a general advance in the standard of living, thereby providing for an increase in both production and purchasing power, and (*b*) to promote the un-interrupted development and most advantageous use of agriculture and other material resources for the establishment of an equitable balance between agriculture and industry in the interest of all."

The implementation of these responsibilities involves the conscious regulation of economic forces in the same way as did the prosecution of the war.

42. That the different nations are conscious of their postwar responsibilities and the measures necessary for their fulfilment is clear from the announcements of policy that have been already made. The Steagall Amendment and the Agricultural Adjustment Act of 1938, as amended in 1942, have already assured the farmer in the U.S.A. of substantial aid in supporting prices, since the prices for several commodities are to be supported at not less than 90% of parity for two years after the cessation of hostilities. President Truman in his annual message to the U.S. Congress, delivered in January, 1946, has also declared that the Government must assume ultimate responsibility for the economic health of the nation and has enunciated two major objectives of agricultural policies firstly, to assure the people on the farms a fair share of the national income, and secondly, to encourage an agricultural production pattern that is best fitted to the nation's needs. The Canadian Government have passed the Agricultural Prices Support Act in 1944 under which a Board has been constituted with power to support the prices of all agricultural products, either by purchasing such produce at prescribed prices or by paying to the producer the difference between the prescribed price and the average market price. In prescribing prices, the Board is required to endeavour to "ensure adequate and stable returns for agriculture by promoting orderly adjustment from war to peace conditions" and "to secure a fair relationship between the returns from agriculture and those from other occupations". Even in the United Kingdom, where agriculture may not be relatively as important as it is in the primary producing countries, the Government have declared that they propose to establish a system of assured markets and guaranteed prices for the principal agricultural products of the country as an

essential and permanent feature of their policy. The farmers are to be apprized of the minimum prices for livestock, milk and eggs three to four years in advance, and for cereals, potatoes and sugar-beet well before the time for sowing. As a corollary to the assistance extended, the Government would expect proper management and equipment of agricultural land and would permanently retain powers for direction, supervision and, in the last resort, taking over possession of land. The Food and Agriculture Organisation and the United Nations Economic and Social Council also have under consideration a plan for setting up a World Food Board with powers to regulate production, prices and stocks, and the proposed International Trade Organisation contemplates the setting up of special commodity commissions.

Post-war State policy in India.

43. In India also, the reports and policy statements issued during war-time, both by official and non-official bodies, have displayed an increasing awareness of the necessity for adopting similar policies. The Food-grains Policy Committee, the Bombay Plan, the Famine Enquiry Commission, and the Policy Committee on Agriculture, Forestry and Fisheries have all stressed the necessity of a policy of State assistance to agriculture with a view to safeguarding the position of the cultivator and ensuring the requisite expansion of agricultural production. After considering the various suggestions and recommendations made, the Government of India have announced an All-India Policy for Agriculture and Food, stating in detail the objectives aimed at, the measures contemplated and the respective roles of the Central and the Provincial Governments in their execution. After outlining the various measures that should be taken to achieve the objectives, the important general principle is laid down that proposals will be judged not merely on the basis of the direct financial return, but that full account will be taken of the indirect economic and social benefits to the country as a whole. The statement is also noteworthy for its recognition that one of the cardinal objectives of State policy is "to secure for agricultural produce an assured market at a price remunerative to the producer and fair to the consumer", and for including in the programme of action such economic measures as may be practicable for "the regulation of prices, so as to ensure an adequate return to the cultivator and a fair price to the consumer".

CHAPTER III.

Methods of State Assistance.

Choice of method.

44. In order to achieve the objectives of expanding agricultural production and placing adequate purchasing power in the hands of the cultivator, it will be necessary for the State to initiate a programme of coordinated development consisting of a number of different measures integrated in a suitable manner. While this much is common ground, there is difference of opinion as to the methods which are most appropriate for ensuring increased production. It is therefore necessary to examine the different methods of assistance in the context of the environmental conditions so as to assess which of them will lead to the most effective attainment of the objectives aimed at.

45. The desired expansion of production cannot fully be achieved without measures which will secure efficient units of production and wide application of improved farming technique. Such measures will be adopted only if it is economically worth while to do so. The measures of assistance must therefore cover both the technical and economic aspects of the problem.

The technical problem.

46. The technical problem is to secure an all-round drive for greater efficiency in agriculture with a view to increase the natural productivity of the land and the yield per acre, through the application of the fruits of research to the specific problems of Indian agriculture. Three stages are usually distinguished in this connection. The first is to extend our scientific and technical knowledge through research on subjects having a bearing on agriculture. The second is to test the useful results of research on a full scale under local farming conditions. The third is to secure the adoption of the improved techniques on a country-wide scale by the cultivator. In other words, scientific research work, agricultural experiments and extension activities should be fitted into a comprehensive plan of action. Much work has been done in India with regard to each of these aspects. Agricultural research in this country received a fillip in the first few years of this century, when the staff of the Agricultural Departments in all the Provinces was strengthened and a number of Agricultural Colleges and Research Stations including the Central Research Institute at Pusa were established. The next important land mark was the establishment in 1929 of the I.C.A.R.

which was designed to assist and coordinate agricultural research in India and to act as a clearing house for information regarding research on agricultural and veterinary matters generally. By 1937, the activities of the I.C.A.R. had advanced to a stage at which Sir John Russell could say that the great need was for "a fuller use of existing knowledge rather than the accumulation of more knowledge", for "work on the cultivators' fields rather than in the laboratories."*

47. Progress in the other two stages, viz., experimental and extension work has been much less rapid. There are a number of experimental stations scattered over the country, but doubts have been expressed as to whether their work has been fruitful. Sir John Russell has pointed out that their work was frequently diffused, confined too much to the laboratory and the pot-culture house, and almost always restricted to the experimental station. It is also generally recognised that the extension of the results achieved on the experimental stations to the fields of the cultivators has rarely proceeded with sufficient speed. But there is no doubt that an appreciable amount of work has been done on the purely technical problems of Indian agriculture, and that further progress in this regard depends on a wide extension of the normal activities of the Central and Provincial Departments of Agriculture. The ways in which this can be done have been indicated in a number of recent reports, particularly in the I.C.A.R. Memorandum on the Development of Agriculture and Animal Husbandry in India and the report of the Famine Inquiry Commission. While we do not feel called upon to make detailed recommendations on this subject, we draw attention to this aspect of the problem because the desired expansion in production cannot be expected to materialise without the widespread adoption of improved farming technique.

The economic problem.

48. As we have pointed out earlier, technical improvements must be economically feasible, before they can be expected to be adopted by the villager. The cultivator will be induced to invest his funds in these improvements only if the resulting increase in output will more than compensate him for his additional outlay.

Reduction in costs.

49. A reduction in the costs can however be brought about by a variety of methods. The requirements of the cultivator such as seed, manure, implements, etc. can be provided at a price below cost, the difference being

*A report on the work of the I.C.A.R.—Sir John Russell.

borne by the State as a subsidy to agricultural development. A reduction may be effected in rent, irrigation charges, land revenue, etc. by deliberate State action. With a given price for the final product, these reductions in cost will improve the net income of the farmer, encourage saving and lead to greater efficiency of production.

Subsidies.

50. The method of reducing the cultivator's costs of production by granting subsidies has been tried in various parts of India. Most Provincial and State Agriculture Departments have from their inception evolved various improved varieties of seeds for distribution to the cultivators. The subsidized distribution of improved seeds has been one of the important measures adopted under the present 'Grow More Food' campaign, which also includes subsidized sale of oilcakes, fertilizers, compost, bone products, etc. to the cultivators. There is no doubt that by the provision of different facilities like seed, manure and water at a price below cost and by directly undertaking operations for bunding, erosion control, etc., the State can influence in a positive manner the direction of development. A system of differential subsidies can secure the diversification of crops and promote greater stability in the economy. A subsidy may also be granted for carrying out particular improvements, or for conforming to a pattern of production set by the State. Such subsidies have been extensively used abroad, the most outstanding being the acreage payments made to farmers in the U.K. during the war for bringing grassland under the plough, and the rewards paid to U.S. farmers by the Agricultural Adjustment Administration for following the prescribed soil conservation practices. In India also, the method has been utilised to some extent during the war by way of acreage subsidies to the customary growers of short-staple cotton who diverted their land to the production of food crops.

51. The method of subsidies has the advantage firstly that the cost is definitely known in advance and in fact determines the size of the subsidies granted, and secondly, that the assistance granted is definitely related to the manner in which it is utilised. A system of subsidies is of particular importance in a country like India, where the cultivator needs direction and guidance as to the methods he should adopt in effecting improvements. The full benefits of subsidies will however be realized only if they reach the actual tiller for specific purposes. This will require a large and complicated administrative machinery for adjusting the amount of

benefit to the needs of each cultivator, checking statements and arranging for payments. Even in its initial stages, the Agricultural Adjustment Administration in the U.S.A. employed no less than seven thousand officials at headquarters alone merely for scrutinising claims and issuing cheques. This illustrates the difficulties of using the method of subsidies on an extensive scale.

Adjustment of land revenue, water charges and rents.

52. The other method of reducing the costs to the cultivator has also been used widely in India. Remissions of land revenue in times of failure of crops have been a normal feature of the revenue system and concessions regarding water-rates have been widely granted during the 'Grow More Food' campaign. In Sind, a sliding scale system of land revenue assessment is in force. The scope for such adjustments is however limited, since certain items of costs are already elastic to some extent. In some parts of the country, rents are paid in kind, and to that extent price-changes do not affect their incidence on the cultivator. We do not wish to minimise the importance of such adjustments of costs as a method of protecting the cultivator, but we feel that they can only have a palliative effect. In the nature of the case, downward adjustments in these demands can only be carried out *post facto*, as falling prices are not easily predictable. The administrative machinery has proved itself none too prompt in granting remissions of land revenue, and continuous adjustment of rents to changing prices may act as a deterrent to investment in land and lead to an increase in litigation.

General economic measures.

53. Apart from the specific methods of reducing the costs of agriculture discussed above, there are certain general economic measures which have widespread incidence and therefore have a bearing on the position of the agriculturist as well. The improvement of marketing and the establishment of regulated markets will enable the cultivator to obtain a larger share of the price paid by the consumer. The regulation of money-lending and the organization of credit facilities will encourage works of land improvement by making finance available at a low cost. The reform of the systems of land tenure will give a feeling of security to the cultivator and the regulation of wages to the agricultural labourer. The size of holding is another factor which greatly affects output; it is generally believed that the present average size is too small and that an increase in the size of holdings will lead to more efficient production. These measures are no doubt of great importance to the prosperity of the

cultivator, and we discuss them in datail in Chapter X of our report.

54. The prosperity of agriculture is closely interrelated with that of industry and any measures which tend to keep up a high level of industrial employment and income will have favourable repercussions on the agricultural economy by relieving pressure on land and increasing the demand for agricultural produce. The development of largo-scale and small-scale industries must therefore go hand in hand with agricultural development. A programme of public works, such as roads, railways, irrigation schemes etc. is also of great importance, as it acts as a pump-priming device and stimulates private investment.

55. It is obvious, in the light of what has been said above, that the prosperity of agriculture depends on the economic situation as a whole and no measures of assisting agriculture can succeed unless they are integrated into the general plan for economic development. From this point of view, the monetary policy of the country assumes special importance. The monetary policy, through influence on the rate of public borrowings, interest rates and open market operations in securities, regulates the volume of currency and influences the general level of prices. A cheap money policy stimulates measures of economic development, both public and private, while a dear money policy retards them. Even if particular measures of development may start in spite of unfavourable monetary conditions and perhaps proceed up to a point, they can be ultimately sustained only if the monetary policy is of a complementary character. It is necessary therefore to follow a monetary policy which is calculated to maintain prices, employment and incomes at satisfactory levels.

56. But though an appropriate monetary policy is an indispensable instrument for securing a general economic expansion, it needs to be reinforced by measures of a more direct character. A monetary policy can only have a passive influence on the inducement to invest. Actual investment is influenced by factors of a more indeterminate character and the psychological factors are often such that investment does not actually result even though the monetary conditions may be favourable. While monetary policy must continue to be the instrument for acting upon the incomes of all classes of people, special measures have to be taken for acting upon the incomes of particular classes and particular sectors of the economy.

In the case of agriculture, in particular, a more frontal attack is called for, and specific measures have to be taken which would have a direct effect on the level of agricultural costs and incomes. Though the lasting success of such individual measures will ultimately depend upon the pursuit of a complementary monetary policy which alone can sustain them, they have great value in transmitting the impact of policy to a sector which would otherwise prove difficult to reach.

Necessity for all types of assistance.

57. It is within a framework of general economic development, therefore, that a programme of active State assistance to agriculture embracing the various methods described above has to be pursued. Each of these methods has its own merits and demerits, as we have pointed out, and in a well-organised system of assistance all must have their appropriate place and no one method can be adopted to the exclusion of others. Any one method may play a significant role within the limits of a fairly prosperous economy when all that is needed is a mild regulation and the provision of fresh incentives in a few well-chosen directions. Where the problem, as in India today, is one of salvaging and revitalizing an economy which has suffered for generations from neglect, nothing less than a well-planned and thoroughly integrated combination of all types of assistance will be of real value.

Analogy to assistance to industry.

58. The measures of assistance which we have discussed so far are on all fours with those which are customarily adopted in the case of industries. Industries are also given assistance by the State to effect improvements in technical methods designed to reduce the cost per unit. In certain circumstances they are also granted relief in taxation, and subsidies. Industrial prosperity also is generally recognised to be dependent on a policy of maintaining purchasing power, prices and incomes at a satisfactory level. Tariff protection is equally applicable to agriculture and industry, and has been used widely in Europe between the wars as a method of assistance to agriculture. The methods so far described, therefore, merely provide for equality of treatment between agriculture and industry and recognize that the prosperity of agriculture is no less important than the prosperity of industry.

Need for special assistance to agriculture.

59. We are of opinion, however, that in order to protect the interests of agriculture in an effective manner, it is necessary to go further than is necessary in the case of manufacturing industries. The agricultural industry has a number of peculiar features which are not found in other

industries. Firstly, agricultural production is inelastic in character in the sense that the supply does not and cannot fall rapidly in the same proportion as the fall in market prices. Since the producer depends for his own employment and his own consumption on land which is his only capital, he has to continue his production under all circumstances and cannot respond to a fall in prices by a rapid reduction of supply. On the contrary, since he depends for the supply of his other requirements on the income he obtains by the sale of his surplus produce, a reduction in price actually calls forth from him an increased supply in the market at the cost of his own consumption, in his effort to maintain his total cash income. Secondly, nature plays a dominant role in determining the quantity of agricultural produce. The agriculturist is at the mercy of climatic factors over which he has no control and a timely rain or an untimely frost can make all the difference. Thirdly, agriculture is a biological industry and cannot close down. A manufacturing plant can be shut down and restarted a year later, but a farmer cannot stop feeding his cattle. The turnover of capital in agriculture is extremely slow, the results of capital expenditure are apparent only after a long time and in the meanwhile the capital equipment has to be kept in use even if the returns do not cover the costs. Fourthly, the difficulties are accentuated by the well-known fact that agricultural costs generally lag behind prices. While prices fall in response to bumper crops or slack demand, the costs are to a large extent rigid and cannot be adjusted downwards except after considerable resistance and delay. Finally, agriculture being carried on by a large number of small producers scattered all over the country, the producers remain unorganised and powerless to deal with unforeseen disasters. The degree of risk involved in agricultural occupations is so high that it is beyond the capacity of the individual producer to shoulder and it is indeed fortunate for the community that he undertakes production at all in the face of such risks and maintains the supply of essential commodities even in the absence of financial incentive. The peasantry carries on the essential service of production in good as well as bad times, and is therefore entitled to protection from society. If it is the duty of the producer to continue to produce in order that the nation may not be starved of its basic needs, it is also the right of the producer to demand that he be maintained in conditions of at least moderate security. The peasantry is the backbone of the economic system and on its survival depends the stability of society.

60. It must therefore be recognised that agriculture is entitled in a sense to preferential treatment in view of its greater susceptibility to seasonal and cyclical fluctuations and the weaknesses in its price-structure. Since on account of its special features, agriculture is at times placed in a position of disadvantage *vis-a-vis* industry, it is necessary to provide for measures which will restore the balance promptly. In certain situations therefore, it may be necessary to alter deliberately the ratio between agricultural and industrial incomes in favour of the former. This has to be done in practice by adjusting the tempo of increase in agricultural and industrial incomes in such a way as would close the gap.

Agricultural incomes.

61. An effective increase in agricultural incomes can be secured in the long run only by raising the physical output per acre in relation to costs. In order that a drive for this purpose should secure the full and enthusiastic co-operation of the producers, it is essential to provide them with a sense of security by undertaking measures of price support. In practice, therefore, a policy of price support is a preliminary to the maintenance of agricultural incomes.

Consumption subsidies.

62. A policy of price support can be implemented indirectly by stimulating the demand of consumers through the grant of consumption subsidies. Subsidies for consumption, however, share the merits and demerits of subsidies for production, since they create the usual difficulties which are implicit in the adjustment of the magnitude of assistance to the requirements of the beneficiary and, in particular, call for a huge machinery for their distribution. Besides, it has been found by experience that consumption subsidies are more effective when given at the stage of the sale of the processed product rather than at the stage of primary production. Subsidies are given to processors and in order that their benefits may be passed to the primary producers, the processors are required to pay remunerative prices to the primary producers. In effect, therefore, consumption subsidies for processed commodities involve direct price-guarantees to the primary producer.

Deficiency payments.

63. Another method of indirectly securing to the farmer the benefits of stable return for his produce is the grant of deficiency payments. These usually take the form of payments per unit of produce sold, so as to make up for any shortfall in market prices. In reality, therefore, deficiency payments are only subsidies in another form; the difference being that they are determined

not in advance but at the end of the year when the difference between the market prices and the desired norm can be calculated. Deficiency payments, therefore, involve not only a vast administrative machinery for checking the statements made by producers regarding the acreage sown by them and the amount of produce sold, but also the determination of appropriate levels of prices on the basis of some standard formula. The advantage claimed for this method is that the scale of assistance is correlated to the needs of each individual farmer. For instance, to the extent that an individual farmer is able to secure a price in the market which approximates to the price considered appropriate, the deficiency payments are automatically reduced. On the other hand, it suffers from the disadvantage that the magnitude of the payments and their burden to the State are not known in advance. Besides, it does not create the same psychological sense of security and optimism that is created by a price-guarantee.

Minimum price-guarantees.

64. Consumption subsidies and deficiency payments are however only indirect methods of assuring the farmer a remunerative price. Many countries have therefore considered that it is far simpler to go to the root of the matter and give direct price-guarantees to the farmer. This necessitates that the State should make arrangements through its authorized agents to purchase produce from any person who wishes to sell it at the guaranteed price, so that if he cannot get that price in the market he will get it from the State. In some cases, the State gives a loan against the produce, the produce being valued at the price which the State seeks to maintain. If the farmer can get a better price in the market, he sells the produce and repays the loan, keeping the difference. If on the other hand, a better market price is not obtainable, he turns over the produce to the State and gets the loan cancelled. This variant of the method has been extensively used in the U.S.A. by the Commodity Credit Corporation, and it has the advantage that the State can postpone taking physical possession of the stocks and may even succeed in avoiding it altogether. The principle however is the same; it is that of assuring a certain price to the producer, by taking over the produce itself if necessary.

The case for price-guarantees.

65. The assurance of such a guaranteed price is in practice the most effective method of maintaining agricultural incomes. A known price is a thing which the agriculturist readily understands. It has greater significance to him than any deficiency payment that he may hope to get later.

The price-gurantee extends an assurance to the producer that he can always depend upon receiving a price not below the level guaranteed and gives him a sense of stability and security which cannot but influence his decisions of investment and production. The guarantee of a minimum price for even a single season is of inestimable value to the agricultural producer, since he knows in advance of his plans what he may safely look forward as a return for his labour. The wide range over which prices fluctuate in the market is the greatest single factor restrictive of agricultural development, and a narrowing of that range with a floor below the market prices immediately creates the conditions necessary for a general expansion. A guarantee of minimum prices is a general measure of agricultural assistance, as distinguished from the selective assistance given by subsidies. The effects of such a guarantee permeate the whole economy, whereas measures such as subsidies only achieve the particular object aimed at. Subsidies can be effective only when the general economic environment is favourable and all that is necessary is to remedy a particular situation. When however it is a general expansion that is aimed at, a guarantee of minimum prices is the most effective measure to adopt.

66. Some of us in fact consider that even if all the other measures of State assistance described by us are put into effect simultaneously, they will not succeed in attaining the object in view unless the producer is also guaranteed a remunerative minimum price for his produce. This view is based on the experience that the combined effect of all the other measures is swept away at one stroke if prices fall below remunerative levels.

67. It is true that in theory a fall in prices may be counter-balanced by reduction in costs, subsidies, etc., but in Indian conditions, in view of the rigidity of fixed items of costs such as rent and land revenue, and the unlikelihood of subsidies being given on an adequate scale, there is a case for holding that if prices fall the effect of such a fall will more than off-set that of all the other palliatives combined. If this happens, marginal land will go out of cultivation and production will fall. Although this tendency cannot go on indefinitely, since the cultivator's own needs will compel him to cultivate a minimum quantity of land, it is obviously undesirable to risk a decrease in agricultural production. It is on these grounds that some of us feel that all other

measures will be in vain unless minimum prices are guaranteed. While all of us are not prepared to go to this length, we are agreed that minimum price-guarantees constitute the most important single measure of State assistance to agriculture and their absence will militate seriously against the benefits conferred by other measures.

Importance of price-guarantees in India.

68. We are reinforced in this view by a consideration of the special needs of Indian cultivators. Agriculture in this country, even at the best of times, is a gamble on the rains and other climatic factors. In addition, crops are subject to pests and diseases against which the producer can rarely afford to protect himself. Production is therefore subject to wide fluctuations. A relatively small proportion of agricultural production enters into the cash economy and smaller still, in the export trade; yet, even a small change in the prices of exports is sufficient to influence the prices in the internal market and the purchasing power of the producers concerned. While a fall in the prices reduces the income of the agriculturist, his costs on account of land revenue, rent and other charges remain fixed, and his debt piles up simultaneously with an increase in its real burden. Moreover, the high proportion of the population on land makes our economy peculiarly susceptible to changes in agricultural prices. The agriculturists cannot afford to take heavy risks, and they naturally hesitate to adopt new techniques or to invest in improvements, or even to avail themselves of the facilities and services offered by the State. The incomes of the agriculturists make up the bulk of the purchasing power in the country and wide changes therein produce like changes in the fortunes of domestic industries. A large number of producers always live on the border line of subsistence, and there is a chronic relative scarcity of land, and capital. Unemployment rarely appears in the form that it presents in industrial countries, for it is always present in the off-season disguised in the form of superfluous labour on farms, which has nowhere else to go for lack of demand. The distress and destitution of a population which, at best, lives on a subsistence level can in these circumstances be well imagined.

69. The agricultural producer in India can therefore be more readily induced to cooperate in a drive for expansion of production and increase in its efficiency, if he has the feeling of security that his surplus produce will in any event fetch a price not lower than a given minimum.

While we may differ in emphasis, all of us recognise that the incentive offered by such a guarantee is direct and general in its incidence, is easily understood by the producer, and evokes his willing response. We recommend that such a guarantee should be an essential part of any policy of agricultural development.

70. The effective guarantee of a minimum price will not only introduce an element of stability in agriculture, but will also promote stability in other spheres of economic life. As the Famine Inquiry Commission have said "a fair return to the cultivator is one of the foundations not only of agricultural prosperity, but general prosperity also. The prices of agricultural produce are a matter of crucial importance in the economic system because of their influence on the whole productive structure, through the costs of raw materials and the costs of labour. The prices of raw materials affect the prices of the manufactured products, which have to face the competition of synthetic products, and the prices of food determine the cost of living which are the basis of the fixation of wages and dearness allowances." Since changes in agricultural prices affect the profitability of industry and its competitive capacity both at home and abroad, industry should welcome any attempt to introduce comparative stability in agricultural prices. Such stability, even for short periods of time, stabilises the costs of raw materials and the wages paid to labour, and leads to the stabilisation of industrial prices in turn. At the same time it serves to stabilise the purchasing power of the large agricultural population and thereby provides a steady demand for the industrial products. In a country like India where there is a huge potential market within the country, still largely untapped, this consideration is of prime importance. Its importance is already widely appreciated as is clear from the fact that the representatives of industry are strong supporters of a policy of stable agricultural prices. The Bombay Plan, for instance, makes the following recommendation :—

"Large fluctuations in the prices of agricultural commodities have been among the most important factors which have prevented agriculturists from making more sustained efforts to improve the yield of the land. To check these fluctuations in future and to assure to the cultivator a measure of security in respect of the prices of his crop, we suggest that, for the principal agricultural crops, the Government should adopt a policy of fixing fair prices. In fixing a fair price, account

should be taken of the cost of living in the area concerned as well as the cost of production. It would be necessary for enforcing these prices to build up adequate commodity reserves which could be utilised to check violent fluctuations. To prevent a depression in the prices of specific agricultural commodities as a result of foreign imports, the volume of imports should be regulated by means of tariffs or by fixing quotas."

71. The fact that prices are maintained at levels which are known before hand will also introduce a measure of stability in the revenues of the Provincial and State Governments. Price guarantees will make it easier for the agriculturist to pay land revenue and water charges, and the general prosperity resulting from such guarantees will have favourable indirect effects on the yield of other sources of revenue. The Provincial Governments will then be in a position to undertake public works in the sphere of agriculture, on a more extensive scale, since such works will prove remunerative even from a financial point of view.

72. Price-guarantees will maintain the price of land also at a steady level and thus increase the value of the only security which the producer has to offer. This will affect the lending policies of credit institutions who will look with greater favour upon advances on the security of land and agricultural produce. The risk in such advances will be reduced to an extent at which even insurance companies may be expected to cover a part of it. The development of cooperative marketing will receive a stimulus, as marketing societies can then with greater safety make outright purchases, hold stocks and expand their commercial as distinguished from agency activities. The importance of a policy of price support to the development of the cooperative movement in India has been clearly brought out by the Cooperative Planning Committee in the following paragraph of their report :—

"Private initiative in the economic field is bound to be greatly restricted in the present stage of development of this country because of the high degree of risk that is involved in all spheres of activity. While the cooperative method of organisation is itself a method of reducing the risk to be shouldered by each, by pooling the responsibilities of all, there is a limit beyond which even a cooperative organisation cannot go in reducing the risks and hazards of enterprise. For this reason it is essential that the State should intervene and take the necessary

measures to reduce the risks inherent in economic life, to a level which private initiative can reasonably be expected to shoulder. While the risks are high in all lines of production, they are particularly serious in the sphere of agriculture, because of the vagaries of the monsoon, the inelasticity of production, the large number of small producers and the wide range of price fluctuations. Moreover, the fluctuations in agricultural prices, in particular, unbalance the whole economy of the country since they affect the incomes of more than 70 per cent of the population thereby affecting the demand for all types of commodities. Besides, they also influence the prices of industrial goods through their effects on the costs of living and on costs of raw materials. The position of the agriculturists is rendered particularly helpless in a period of slump of agricultural prices. The State must, therefore, adopt a policy of actively supporting agricultural prices within a range which is fair both to the producer and the consumer, if a slump is to be avoided in the next few years, if stability is to be introduced in the whole economic system, if the risks involved in production, trading and processing are to be reduced to manageable proportions and if the cooperative movement is to be enabled to compete with other forms of enterprise with greater success. It is, therefore, upon a policy of active economic development by the State that the success of Cooperation will depend ".

73. The replies that we have received from the Provincial and State Governments and important organised bodies of public opinion to whom we had circulated our questionnaire, though differing in detail, are overwhelmingly in favour of a policy of maintaining remunerative prices. The Governments of Bengal, Madras, Bombay, Punjab and Assam, as also the Local Administrations of Ajmer-Merwara and Coorg have expressed themselves in favour of a State agency to determine fair prices and enforce them by purchasing surplus produce from the market. The Government of Bihar, while agreeing that it is necessary to assure the agriculturist a return which is proportionate to the return obtained from other forms of labour, feel that much could be accomplished by methods such as the reform of the systems of tenancy, credit and marketing. They, however, recognise that an artificial depression may have to be safeguarded against by State intervention and the maintenance of buffer stocks. The Administration of Delhi take the view that fixation of prices will not be possible in the future unless the existing emergency legislation is continued after the termination

of the war. Most of the Indian States who have replied favour a policy of price-fixation and the same attitude is taken by the Indian Central Cotton Committee, the Indian Central Jute Committee, the Indian Central Coconut Committee, the Indian Central Sugarcane Committee and a large number of non-official organisations and private individuals.

74. While thus stressing the importance of guaranteed minimum prices, we wish to emphasise that the benefits of such guarantees must be carried down to all classes participating in agriculture and steps should be taken to protect in particular the small cultivators and agricultural labourers, who are most vulnerable to the hazards of agriculture and need greater protection than the bigger landlords. We discuss this question in greater detail in a subsequent chapter and only wish to point out here that measures to fix minimum agricultural wages and to protect the tenant against undue enhancement of rent are an important complement to a policy of price-fixation.

75. A policy of maintaining the incomes of the agriculturists by guaranteeing prices at a minimum level has to be associated in practice with an undertaking to provide supplies to the consumers at reasonable prices, not exceeding a specific maximum. Where need be, the State may in addition give special protection to the vulnerable and poorer classes of consumers through subsidies on consumption. It should thus be the object of State policy to hold the market prices within a bracket fixed by the minimum and maximum prices a the two envcloping limits. As the market prices show a tendency to deviate, the one or the other limit will become active and should be enforced by appropriate measures.

76. A policy of guaranteed prices is thus not merely an emergency measure undertaken to ward off an anticipated depression, but is a normal measure designed to insure the economic system against both booms and depressions. It is not the intention to prevent long-term factors such as increases in productivity and shifts in demand from having their normal effect on agricultural prices, but to protect the price structure from short-term disturbances of a sporadic or cyclical character. It may be that the guarantees may remain passive if the market prices follow a smooth course. The machinery of regulation will then enjoy occasional spells of enforced quiescence. In a changing world, such occasions will however be rare, and since the price-guarantees may have to be

extended to a number of commodities with varying supply and demand factors, the guarantees relating to some one or the other out of them are bound to be a live issue for most of the time. It is important to remember that it is not merely a question of putting only a floor to prices, but of putting a ceiling as well and what is more, of revising the floors and ceilings at regular intervals. The policy is to substitute limited and gradual variations in prices, at definite time intervals, according to a planned procedure, in place of the wide, spasmodic and erratic course of prices that actually results from the interaction of supply and demand in the market. In short, the guiding principle of policy should be to fix prices within a range which would be fair both to the producer and to the consumer and be capable of being enforced in practice. The State should provide an assured market to the producer at the minimum price, by guaranteeing to purchase all that is offered to it at that price, and it should undertake to release supplies at the maximum price when the market prices threaten to exceed the prescribed maximum, so that the needs of consumers may be adequately met.

77. The adoption of a policy of price-fixation in India will not present serious difficulty since it would only bring the country into line with what is alreay being done in other countries. The U.S. Government has assured twenty farm commodities of price-supports in the immediate post-war period, to the extent of 90% of the parity price. It has also laid down as a principle of State policy that a farm family should be assured of a standard of living comparable to that of a family of equal capacity and industry which derives its income from business or factory work. In Canada, the Agricultural Prices Support Act of 1944 has set up a Board with authority to purchase staple agricultural products, whenever such products cannot be sold in the market above certain 'floor' prices. The Board is charged with the obligation of securing a fair relationship between the returns from agriculture and those from other occupations. In the U.K., the Government has established a system of guaranteed prices and assured markets for milk, fat, livestock, eggs, cereals, potatoes and sugar-beet. This general acceptance of the policy of price-fixation makes it easier for the different countries to reach agreement on a common and integrated price policy which will be of mutual benefit and will help to prevent price-policies in individual countries from being dislocated by competition from abroad. In fact, it should

be possible to coordinate national policies in this field through an international organisation, in a manner which will maintain agricultural prices on a world scale. We are glad to note that proposals have already been made at the recent meeting of the F.A.O. at Copenhagen for setting up a World Food Board for stabilising prices on the international market, and for building up a world reserve of food so as to level out good and bad harvests. We also understand that it is proposed to evolve an international commodity policy at the International Conference on Trade and Employment, to be held shortly, so as to deal with both, situations of chronic disequilibrium between supply and demand, as well as short-term and cyclical price fluctuations. A machinery for international collaboration in this field will greatly assist in the implementation and coordination of national policies of price support.

Comprehensive programme of assistance.

78. Although our report concentrates mainly on the specific problem of price policy, we do not wish to lend countenance to the view that the enforcement of minimum price guarantees alone is sufficient to safeguard the interests of the cultivator. On the contrary, we wish to emphasise that a policy of guaranteed prices should form part of a comprehensive system of State assistance to agriculture, embracing a number of measures of agricultural and general economic development such as those described by us earlier in this chapter. A price-policy must be conceived within the framework of an adequate level of general economic activity. It is only an increase in the real wealth of the country that can in the last resort provide a wider market for agricultural produce and bring about a lasting improvement in the standard of living of the agriculturist.

CHAPTER IV.

Principles of Price Fixation.

79. A policy of price support by appropriate State action raises the question of the level at which the prices should be maintained. The obvious answer that suggests itself is that the prices should be maintained at a level which would be fair both to the producer and to the consumer. Fairness to the producer involves a price which covers his cost of production and leaves him a net income which is approximately equivalent of the income obtainable in other comparable occupations, so as to provide him with an incentive for expanding production. If the price is lower than this, the producer will have no reason to continue in that occupation and may migrate to more remunerative avenues of employment but for the facts that alternative lines of employment are limited, and the producer looks upon agriculture more as a way of life than as a source of profit. Fairness to the consumer involves that the price should be such as to enable him to satisfy his basic minimum needs at a given level of income. If the price is higher than this, it would reduce his standard of living with consequent effects on his health and efficiency. **The concept of fairness.**

80. In the translation of the concept of fairness into actual practice, certain difficulties arise. What may be considered fair to one producer under certain conditions of cultivation may not be fair to another producer whose conditions of cultivation are entirely different. This is an aspect of considerable importance in India where the costs of production vary from region to region and often even from holding to holding. The enquiry into the cost of production of certain crops which was conducted by the Imperial Council of Agricultural Research revealed very wide variations in costs. The following table shows the mean cost of production of wheat in certain producing centres during the years 1933-34 to 1935-36 of the depression period :—

Province.	*Centre.*	*No. of holdings.*	*Mean cost in Rs. per Maund*	*Standard Deviation*
Punjab	Lyallpur	48	2.11	±0.05
	Jullundur	48	3.39	±0.11
	Gurdaspur	20	1.60	±0.20
Sind		37	2.92	±0.18
C.P.& Berar	Nagpur-Wardha	12	3.97	±0.38
	Berar Plains	16	6.68	±0.74
	Berar Ghat	12	3.43	±0.28

These variations are accounted for partly by the productivity of the local soils and partly by the relative costs of bullock and human labour. For instance, in Lyallpur the land consists of moderate to rich loams. Jullundur soils are mainly sandy to medium loams, while light sandy loams predominate in Gurdaspur. Bullock labour was most expensive in Jullundur and cheapest in Lyallpur, Gurdaspur coming in between. Similar differences obtained in respect of human labour. Such variations in the costs of production are however by no means peculiar to India. The Australian Royal Commission on Wheat, for instance, noted the following figures in regard to costs of production :—

Cost of production per bushel.	*Percentage of producers.*
Below 1 sh.	3.9
Between 1 sh. & 1/11	27.0
Between 3 sh. & 3/11	38.9
Between 4 sh. & 4/11	18.6
Between 5 sh. & over	4.9

These examples show how difficult it is to get representative figures of costs of production.

81. Similar difficulties also arise in defining what is fair to the consumer. A price which is fair to a consumer belonging to a higher income group is likely to be unfair to a consumer belonging to a lower income group. The fairness or unfairness of the cost of living is after all relative to the income of the consumer.

Conflicting interests.

82. The immediate interests of the producers and the immediate interests of the consumers thus appear to be different and to a certain extent divergent. The producer is anxious to obtain the highest price for his produce, while the consumer is anxious to obtain his requirements at the lowest possible cost. A fall in prices imposes hardship on the producer by immediately reducing his income, and thereby impairing his efficiency. This results in a shrinkage of the scale of his operations pending the adjustment of costs to prices. Hence, even if the prices of other commodities consumed by him fall in the same proportion he is still a net loser. On the other hand, falling prices confer a disproportionate benefit on the consumer because, normally, they result in an increase in his net saving. The producer needs to be assured of a reasonable income before he will undertake intensive agriculture. The consumer, on the other hand, is anxious

to obtain his requirements at as low a cost as possible. There thus arises a gap which leads to a certain divergence of interests as between the two sections of the population.

Unity of interests.

83. A longer view will however show that the interests of producers and consumers are interdependent. The same person may be a producer of certain types of goods and a consumer of others. In the same manner, different regions may be surplus or deficit for different crops; and they may export their surpluses and import their requirements. The Punjab, for instance, usually exports wheat, rice and millets, and imports vegetable oils and tobacco. Assam has exportable surpluses of rice, jute and tea and imports wheat and pulses. Madras normally exports vegetable oils, groundnuts and tobacco, and imports wheat, gram and rice. Bombay exports vegetable oils and tobacco, and imports gram, rice, wheat and groundnuts. Bengal is surplus in raw jute, but deficit in gram, wheat, vegetable oils and tobacco. In India, where a majority of the population consists of agriculturists, the conflicting interests are not between the producers and the consumers as such but between the rural population which is predominantly agricultural and the urban population employed in industry, service and trade.

84. Even here, the unity and interdependence of interests are deeper than the apparent conflict. The rural producers and the urban consumers are both interested in the stability of costs and incomes. It is the wide fluctuations in costs and incomes and the consequent instability which give rise to a feeling of insecurity, destroying initiative and enterprise. If these fluctuations can be confined to a narrow range, it would make for increased production as well as for security of employment. Our aim should therefore be the fixation of fair prices which would provide stable incomes to the agriculturists as well as stable costs of living to the urban workers. The stabilisation of the costs of living would no doubt lead to the stabilisation of wages which together with the stabilisation of the costs of raw materials would make for stable prices of manufactured goods. A policy of price fixation, accompanied by a strong drive for efficiency, will thus be in the interest of all classes of the community.

85. Further, it is important to remember that neither costs nor incomes can be rigidly fixed for all time. When prices are fixed at a level which is fair to the producer,

measures should be simultaneously taken to maintain employment and wages at an appropriate level; then the prices fixed may prove to be fair to the consumer as well. In the same way a price which is fair to the consumer would also prove to be fair to the producer, provided plans of agricultural improvement have resulted in the reduction of the costs of production.

86. The increased efficiency of production will contribute largely towards resolving the conflict between the producer and the consumer. The assurance of a fair income to the producer will induce him to adopt improved techniques of production which will reduce the costs per unit of output and tend to lower the level of prices. The fair price fixed can be progressively reduced as efficiency increases and production expands. It should be remembered that the fixation of a fair price is not an isolated measure for the transference of incomes from one class to another; it is a part of an integrated drive for increasing efficiency, expanding production and raising the standard of living. The fixation of a fair price will serve as an inducement to the cultivator to make full use of the expert technical advice and the facilities for improvement made available to him. If for instance, the average yield of wheat is 10 maunds per acre and Rs. 75/- per acre is considered to be a fair income for the cultivator, then the fair price will have to be fixed at Rs. 7/8 per maund. As a result, measures calculated to increase the efficiency of production will be undertaken and if the yield per acre goes up from 10 maunds to 15 maunds, the income of the cultivator would rise to Rs. 112/8 with a price of Rs. 7/8 per maund. A certain increase in the expenditure of the cultivator will be called for on account of his extra outlay on seed, manures, and other efficiency factors. If the cost of these factors is taken to be equivalent to 2 maunds per acre, i.e. Rs. 15/-, then an income of Rs. 90/- would cover his total costs and it would be possible to reduce the price of wheat from Rs. 7/8 per maund to Rs. 6/- per maund without prejudicing the interests of the producer. The actual price will then be fixed at some intermediate point e.g. at Rs. 6/12 per maund, so as to distribute the benefits of increased efficiency equitably between the producer and the consumer. Thus, even if the initial fixed price of Rs. 7/8 were slightly higher than what the market would normally permit and the consumers could afford, the temporary sacrifice that the consumer would have to bear would be compensated by the lower price that he would pay in the long run as a result of the increased efficiency

of production. The case in this respect is analogous to the case for protection of industries.

87. We realize that in the initial years while the increase in efficiency has not yet caught up with the increase in price, certain classes of consumers may be put to hardship because the price may prove beyond their means. The solution to this lies not in fixing the price at a lower level, but in assisting the consumers, especially those in the lower income groups, by special subsidies on consumption. In deciding what is fair to the consumer a long-range view has to be taken and in the long-run, a price which is fair to the producer, i.e., covers his costs of production and leaves him an income comparable with incomes in other occupations will also prove fair to the consumer, by increasing the efficiency of production and making possible a reduction in prices at a subsequent date. This is the criterion which has been adopted in the U.K. and the announcement of agricultural policy by the Minister of Agriculture states *inter alia*: "The objective will be to promote a healthy and efficient agriculture capable of producing that part of the nation's food which is required from home sources at a lowest price consistent with the provision of adequate remuneration and decent living conditions for farmers and workers, with a reasonable return on capital invested." Similarly the Agricultural Prices Support Act of Canada requires the Agricultural Prices Support Board set up under the Act, "to endeavour to ensure adequate and stable returns for agriculture by promoting orderly adjustment from war to peace conditions and to secure a fair relationship between the returns from agriculture and those from other occupations".

Goal of price policy

88. We feel that the ultimate goal of price policy in India also should be to enable the agriculturists to obtain an income which is sufficient to maintain him and his family at a standard of living which is equal to that enjoyed by other comparable classes of the population and to fix the producer's price accordingly. If the producer's price so fixed is beyond the means of certain classes of consumers, they should be given adequate relief through consumption subsidies.

Determination of the fair price.

89. When we say that a fair price should cover the costs of production and leave a margin which would cover the costs of living, what we have in mind are not the costs of the marginal producer or the costs of the

average producer, but the costs of the bulk of the producers of that commodity in the main producing areas i.e., who have a representative size of holding and are wholly dependent upon such holdings. As we have already stated, there are wide differences in the conditions of production depending upon many contributory factors which are reflected in the costs of production. We do not think that the prices should cover the cost of cultivation of marginal lands which are lands which cannot give profitable yields and in this, we agree with the view expressed by the Foodgrains Policy Committee that the " best way of dealing with them is to give a direct subsidy to cultivation of such lands rather than to raise the general price level to an extent sufficient to cover the additional costs involved ". The average costs of production would also not be a reliable guide because this type of average would no doubt be influenced by marginal lands. What we are anxious to secure is a price which would cover the costs of production of the bulk of the cultivators and for this purpose the land to be taken into account should be ' representative', rather than ' average ' or ' marginal '. The most representative cost is obviously that which is typical of the largest number of farms i.e., that which is applicable to land which is most common. This criterion has to be applied not only to the quality of the land, but also to the size of the farms, in view of the well-known fact that the scale of agricultural operations has a significant effect on unit cost of production. The costs of production on ' representative ' land should also include costs which are met in kind such as the actual labour of the cultivator and his family and the costs on account of the capital and land owned by the cultivator himself. The 'representative' costs should include fair wages to the agricultural labourer employed.

90. Similarly the costs of living which are relevant for this purpose are the costs of living in the rural areas. They should include such articles as enter into the consumption or if they do not, should enter into the consumption of the cultivators as a class.

Collection of data.

91. Unfortunately, there does not exist in India at present any organised agency which collects comprehensive data relating to costs of production and costs of living. All that we have are the results of particular enquiries conducted in selected villages at different periods of time by individual research workers. The Board of Economic Enquiry in the Punjab and the Gokhale Institute of Politics

and Economics, Poona, have done notable work in this direction. Since 1926 the Board of Economic Enquiry, Punjab, has been publishing an annual series "Farm Accounts in the Punjab" dealing with the cost of production of crops in different holdings in the Province. The Board has also issued other publications relating to agricultural holdings, agricultural mortgages, cattle and milk problems, urban cost of living, rural family budgets, food prices, marketing, sale of land, village surveys, etc. The Gokhale Institute of Politics and Economics at Poona has also conducted some surveys, the most useful, from our point of view being the surveys of farm business in Wai taluka and of the marketing of fruit in Poona. Similar surveys are being conducted by the Universities, but in general, the work is scattered and piece-meal, without any unifying and co-ordinating force.

92. The only large-scale organised enquiry into the costs of production was the one conducted by the Imperial Council of Agricultural Research to which reference has already been made. This enquiry aimed at ascertaining the costs of production per acre and per maund of certain crops in the principal sugarcane and cotton tracts in India and it was jointly financed by the Imperial Council of Agricultural Research and the Indian Central Cotton Committee. It covered a period of three crop years 1933-36 and was based on the cost accounting method. It involved the recording of the costs of all farm operations and business transactions by a large organization of village investigators, permanently stationed and in continuous attendance on the selected farms. The work was supervised by district supervisors and provincial officers under the general guidance of the Chief Economist of the I.C.A.R. at Delhi. The choice of the villages and holdings selected for enquiry was left to the provincial departments of agriculture with the general instruction that they should be as representative as possible, i.e., taken from that group into which the majority of villages or holdings would naturally be classified. The results of this enquiry revealed considerable variations in the costs of production and they are often criticised as being of doubtful validity.

93. Enquiries into the costs of production are a common feature in other countries and in fact form the basis of all attempts to fix prices. In the United Kingdom, the agriculture and fisheries statistics deal with the acreage under each description of crop, fallow and grass, the produce of principal crops and with the number of horses, cattle, sheep and pigs. The Minister of Agriculture and

Fisheries in his speech in the House of Commons on January 26,1944, stated that in fixing agricultural prices up to and including the harvest of 1947, one of the bases of fixation would be the economic and financial accounts relating to different types and sizes of farms and the statistical material relating to costs of production collected by means acceptable to Government and the industry. The United States Department of Agriculture conducts detailed investigations into the costs of production of different types of agricultural produce and has perhaps the largest organization for the collection of economic and statistical data relating to agriculture. The crops dealt with range from major crops such as wheat, cotton, sugarcane and oilseeds to minor field crops, such as hay and seeds and the livestock statistics relate to beef-cattle, hogs, sheeps, horses and mules and to dairy and milk products. In Canada, detailed statistics are collected relating to farm wages, farm capital, crop condition, area, production and value of crops, livestock and livestock products, trade in farm products, prices of agricultural produce, etc.

94. We recommend that very early steps should be taken in India to create the necessary machinery for the collection of similar data relating to the costs of production of different crops and the costs of living in the rural areas by means of random sample surveys. The surveys would, in time, disclose the effects of the various measures of improvement on the yield per acre. This will be an indispensable aid when revising prices in the light of the expected increase in productivity. In addition to such enquiries, there is urgent need for considerable improvement in our agricultural statistics, as a whole. We discuss the organisation necessary for this purpose in Chapter IX of our report.

Determination of the fair price in the interim period.

95. We are not in a position to recommend the cost of production approach for the fixation of fair prices until necessary data have been collected on a scientific and proper basis. As a result of the investigations recommended by us it should be possible in the course of a few years to obtain in India such data. Until then, we have to proceed on a rough and ready basis which as an expedient, would be considered appropriate by all the interests concerned. The statutory price controls which were enforced during wartime had to be similarly improvised, and such improvisation must continue for some years. The only method which is feasible under the existing circumstances is to improve the terms of trade

of the agriculturist by relating in a suitable ratio the level of agricultural prices to the prices of the more important goods and services entering into the costs of production and the costs of living of the agriculturist and his family. The Foodgrains Policy Committee also had recommended that in considering the level of prices of food appropriate to a particular area, regard should be had to (*a*) the cost of articles entering into the cultivator's cost of production and (*b*) the cost of articles entering into his standard of living. Such a formula secures that changes in agricultural prices keep in step with changes in agricultural costs and that agricultural prices do not pursue an independent course of their own as is likely to happen because of the peculiar conditions of agricultural production. It thus safeguards the interests of the cultivator in periods of depression when agricultural prices fall rapidly and agricultural costs remain rigid and it safeguards the interests of the consumers in periods of inflated prices when agricultural prices rise out of proportion to the rise in agricultural costs. We recommend therefore that for the present, fair prices should be determined on the basis of parity between prices and costs.

96. In the calculation of agricultural costs, two significant facts have to be borne in mind. Firstly, the expenditure of the cultivator is usually incurred partly in cash and partly in kind and it is only with relation to the cash expenditure of the cultivator that the question of relating prices to costs arises. The cultivator usually pays wages and rents in the form of a share in the produce and most of his food requirements are satisfied from the food grown by himself except when he grows commercial crops alone. Secondly, all the items on which expenditure is incurred in cash are not affected to the same extent by price variations. Items such as land revenue, water rates and interest charges usually remain fixed for specified periods of time and these items account for a substantial proportion of the total cash expenditure. It is only to the variations in the prices of the other items in agricultural costs that variations in agricultural prices should be related.

97. The important items in agricultural costs on which attention must therefore be concentrated are iron implements, bullocks, manures, cattle-feed such as oilcakes and fodder, labour and such other items as enter into the cultivation expenses, and cloth, salt, gur, sweet oil, kerosene oil etc., which enter into the cost of

living. The aim should be to link agricultural prices to the variations in the prices of these items in agricultural costs. In other words, if agricultural costs rise on the average by a certain percentage as compared with the accepted base period, the prices of agricultural products should also be raised in the same proportion as compared with the base period. Since this requires the averaging of widely different items of agricultural costs, the obvious procedure is to compute an index number which will take into account the relative importance of different items of costs to the farmer. For instance, a two-fold rise in the price of cloth is clearly a much more serious matter for the agriculturist than an equivalent increase in the price of, say, salt. The index number will therefore have to be weighted according to the proportions of the different items in the total expenditure of the farmer. The fact that certain items of costs, such as land revenue, rent, irrigation rates and water charges are relatively stable in character should be allowed for in the computation of the index number. It must also be remembered that the different items of costs have varying degrees of importance in the cost of different crops. For instance, the I.C.A.R. enquiry into the cost of production of crops (1935-37) revealed that the cost of labour accounted for about 15 per cent of the total cost of production of wheat in the Punjab, while recent investigations carried out by the I. C. J. C. show that the cost of labour accounts for as much as 80 per cent. of the total cost of production of jute in Bengal. What applies to labour costs may be equally true of other items of costs as well. The items may therefore have to be weighted separately for each crop, in proportion to their relative importance, before being utilised as a measure of the change in the overall cost of production of any crop. The Farm accounts and Rural Family budget surveys published in various provinces furnish a good deal of information on these points. The data available will no doubt relate to particular local areas but they will still be of considerable assistance.

98. The linking of agricultural prices to agricultural costs involves maintaining a certain ideal relationship between them and the question arises as to what this ideal relation should be. In the absence of sufficient data which can enable us to determine what relationship would be appropriate, one can only proceed on the basis of the relationship that existed in some period of time in the past when it was commonly accepted to be fair to all the interests concerned. It is no

doubt true that a relationship which was considered to be fair in the past need not necessarily be so in the future. The ratio between agricultural prices and costs must necessarily change in course of time with changes in the conditions of supply and demand of both types of goods. There are continuous improvements in scientific technique which reduce the costs of production of different goods in different proportions. There are also shifts of demand from one commodity to another. Any ratio therefore which may have been appropriate in the past will need to be corrected for changes in the conditioning factors so as to make it appropriate in the present. While this may be recognised, it is also true that the application of new developments in scientific technique in the field of agriculture proceeds at a much slower pace than it does in other spheres of economic activity, firstly, because the unit of agricultural production is still much too small to permit mechanisation on any considerable scale and secondly, because the production is carried on by a large number of small producers who are slow in giving up their traditional techniques. The demand for agricultural goods is more stable and inelastic in character because in spite of the manufacture of synthetic products of various descriptions, the soil still provides the bulk of the requirements of the population for food and raw materials. The changes that are taking place in the conditions of supply and demand in agriculture are thus likely to alter the ratio in favour of agricultural goods rather than in favour of the items entering into agricultural costs. While therefore every effort should be made to adjust the relationship from time to time in the light of changing circumstances, it would not be far off the mark even if the relationship that existed during a suitable period in the past is maintained for the time being for the purpose of calculating fair prices.

The parity approach in the U. S. A.

99. It was on the parity principle that the price support policy in the U. S. A. has been based. The parity price was considered to be the price which would give one unit of any agricultural commodity the same purchasing power that it possessed in the base period. The base period adopted in the United States for the determination of the parity is the period from August, 1909, to July 1914, though for certain commodities the period from August, 1929 to July, 1939 has been used. In recent years there has been a proposal to use the period from August, 1934 to July, 1939 as the basis. In the calculation of parity in the United States it is possible to distinguish

three different steps. The first step is to determine a base price for each product. This is done by averaging the prices reported by the farmers to the Department of Agriculture during the period from August, 1909 to July, 1914. The second step is to prepare an index of prices paid by the farmer for the various commodities that he purchases. The index now includes 86 items used in family-living and 96 items used in farm-production, besides the interest and taxes paid by the farmer. The index includes items such as food products, feed, seed, and other farm products whose prices are themselves a result of the price support programme, and these items amount to about 29% of the total items in the index. Farm labour is not included in the index at present. The group of commodities used in family living and the group of commodities used in production (including interest and taxes paid) are given equal weights. The third step is to calculate parity prices by adjusting the base period average prices of different commodities in the light of the changes in the index number of prices paid since the base period.

100. Parity has been the basis of all legislative and executive action in the field of agricultural price regulation in the U. S. A. since the Agricultural Adjustment Act of May, 1933. It specified that it was the policy of Congress to " re-establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period ". The objective of placing the agriculturist on a par with other sections of the population was declared in the Soil Conservation and Domestic Allotment Act of 1936 which mentioned as one of its purposes, the " re-establishment, at as rapid a rate as the Secretary of Agriculture determines to be practicable and in the general public interest, of the ratio between the purchasing power of the net income per person on farms and the income per person not on farms, that prevailed during the five year period, August 1909 to July 1914, inclusive, as determined from statistics available in the United States Department of Agriculture and the maintenance of such ratio ". The principle of parity has been reiterated in subsequent legislation such as the Agricultural Marketing Agreement Act of 1937, the Agricultural Adjustment Act of 1938 and the Price Adjustment Act of 1938. The directions issued by Congress to the Secretary of Agriculture and to the Commodity Credit Corporation regarding price

supports whether by subsidies or by purchases or by loans are all related to the maintenance of prices at parity or a certain proportion of parity.

101. The concept of parity is subjected to various criticisms in the U. S. A. It is suggested that parity unnecessarily ties down the economic system to a relationship which existed in the distant past and is now entirely out of touch with current conditions. It is also argued that the principle of parity does not take into account the actual costs of production, the net returns and the volume of production, which really are the determining factors in the income of the farmer. Even in the computation of the prices paid by the farmer, it is pointed out, an important item like labour has been excluded thereby greatly vitiating the index number. What is of importance, according to the critics, is not a parity between prices but a parity between the incomes of the farming and the nonfarming population.

102. Most of the criticisms however are a plea not for the abandonment of the parity approach but for improvements in the methods of calculating parity prices. It is generally agreed that the index of prices paid should include the prices of all items, including labour, which enter into the costs of production and the costs of living of the farmer and that the base period relationship should be corrected for such changes as may have taken place in the conditions of supply and demand since the base period. It is recognised that it is the farmers' net income which has to be assured and that changes in supply and demand conditions affect the remunerative scale of production and hence the net income. The goal of parity incomes rather than parity prices is obviously desirable; yet, since no accepted method of translating the overall income into a series of prices per unit has so far been found, parity prices have to be used for the time being as representative of parity incomes.

The fair "parity" price

103. In due course it would no doubt be possible to introduce refinements in the light of experience so as to meet the various points of criticism that are advanced. What is important however at the moment is to focus attention on the principle of parity between agricultural prices and agricultural costs. It has the advantage that it does not rigidly stabilize prices at any absolute level but permits them to fluctuate in relation to changing conditions of costs, thereby providing the necessary elasticity in the economic system. It links agricultural prices

and costs by a certain relationship based on past experience as to what may be considered fair and thus prevents the hardships that the producer and the consumer may otherwise have to bear on account of violent fluctuations in prices. This link may appear to introduce a certain amount of rigidity and to prevent the adjustments that may be necessary on account of market changes in supply and demand. It is, however, an inevitable corollary to the rigidities that are inherent in the economic system itself. In the past, agricultural prices and incomes were entirely at the mercy of factors connected with non-agricultural activities and were thus in a sense residually determined. The link between agricultural prices and costs will now provide a certain support to agricultural prices themselves, so that they may exercise a certain pressure from their own side and influence the general price level. The parity formula thus, while retaining the necessary measure of elasticity in the determination of prices, yet provides a valuable support to the prices of agricultural produce.

104. We are therefore definitely of the opinion that the principle of parity should form a vital objective of State policy, and that all possible steps should be taken to translate this principle into actual executive action. We do not suggest that fair parity prices should be mandatory in the sense that State action should necessarily be tied up to the results of the parity formula, because executive decisions must also take, other relevant factors into consideration. What we do suggest is that the parity formula provides a basis which may be considered to be fair to all interests and that until adequate data of costs of production and cost of living are collected, this basis should be used for calculating fair prices of commodities.

105. As the prices of agricultural goods are to be adjusted to agricultural costs, on the basis of the ratio which existed between them during a base period, the choice of the base period is important. A number of different periods are suggested in this connection. The period 1910 to 1914 which has been adopted in the United States is much too remote to have any validity in present times. In fact in the United States itself, the period 1919-29 has been adopted in the case of certain commodities and there is a proposal in recent years to change the base to the period 1934-39. The period 1934-39, however, though closer to the present day and more acceptable from that point can by no means be considered

a normal period since the effects of the world depression had not worn off by then. Though recovery had started, it was far from complete in India. The period 1920-40 is suggested as a period which covers the entire cycle of boom and depression, but this period also suffers from the inclusion of years which are now too remote and of years which are marked by the depression. The most appropriate period in our view is the quinquennial period 1925-29 which could be considered a normal period since it is between the end of the post-war boom and the beginning of the world depression. During this period, agriculture in most parts of the world was fairly prosperous and the ratio between agricultural goods and agricultural costs was considered to be fair. Sir Walter Layton and Mr. Crowther, in their "Study of Prices" indicate their preference for the period 1922-29, in the following words —

> ".....by contrast with the periods of rapid and extensive changes which preceded and followed these seven years, they appear as an oasis of stability."

Out of these seven years, the first two or three were characterised by fluctuating exchanges and a minor depression in India. It was only after the Spring of 1925, when Great Britain returned to the Gold Standard, that a reasonable amount of stability could be said to have been achieved. Taking all factors into consideration, 1925-29 appears to be the most appropriate base-period.

106. The prices arrived at on the principle of maintaining the same parity between prices and costs as in the period 1925-29 may be considered broadly fair, and it should be the objective of State policy to enforce these prices in the market. It is very difficult however to peg market prices at a fixed point as they are continually liable to change in pursuance of varying conditions of supply and demand. Further, in actual practice, we have to take into account the conditions of enforcement. To fix prices on the basis of a theoretical formula without examining whether the actual circumstances in the market and the resources at the command of the State would enable these prices to be successfully enforced will in our opinion be courting disaster. It is therefore desirable to peg market prices within a certain range with a minimum and a maximum at the two ends, instead of aiming to maintain them at a fixed point. The

minimum and the maximum prices should be fixed at points below and above the fair parity prices calculated as above, their exact levels being determined after careful consideration of the various factors involved.

Minimum and maximum prices.

107. As between the minimum and maximum prices, the minimum price is of special importance from the point of the producer since it conveys to him the assurance that his income would not fall below a minimum level and introduces a certain element of stability and security in his life. The maximum price, on the other hand, is of special importance from the point of view of the consumer because it sets the limit to his cost of living and assures supplies to him at that price. At any moment of time, the wholesale price in the market will be tending either towards the minimum or towards the maximum and one or the other of the two will be the more effective price according to the circumstances. It may be noted that the minimum and maximum prices referred to represent the wholesale prices in the mandies. The prices actually received by the producers will naturally be somewhat lower than the wholesale prices as producers' transactions would relate to an earlier stage of trade. Similarly, the prices paid by the consumers, being retail prices, would be some what higher than the wholesale prices.

Transition and post-transition periods.

108. We shall first deal with the fixation of a and minimum price. In this connection, we wish to distinguish between what may be called the transition period and the post-transition period. The basis of this distinction is the fact that a certain period of time is taken in switching over the economy from a war-time to a peace-time basis, during which period conditions remain in a state of flux. This period is generally referred to as the transition period. It is characterized by a shortage of supplies and a substantial measure of Government control over the procurement, distribution and prices of commodities. As the supply position improves, the controls are gradually relaxed until the transition is complete and the economy enters into the post-transition period. During the post-transition period Government control ceases and normal trade and marketing conditions are restored.

Fixation of the minimum price.

109. It is difficult to forecast with any accuracy the exact duration of the transition period. We anticipate however on the basis of our study of the present conditions that it would last for the next two years, i. e.

1947 and 1948. Since during this period the present shortage of supplies and the prevailing high level of prices will continue and consequently many of the war-time controls will be maintained, we are of opinion that the minimum price for this period should be fixed at a level equivalent to the fair parity price. It is important to so orientate the policy of the State during this period of transition that the way may be paved for the early and smooth restoration of normal trade conditions.

(i) During the transition period.

110. In the post-transition period when the supply position has improved, the controls have been relaxed or abolished and normal conditions of trade have been restored, the determination of a minimum price will need careful consideration. The object of policy would continue to be the enforcement of the fair parity price as before but the task would be more difficult in the absence of the armoury of controls. It would therefore be necessary to take fully into account the large variety of factors which bear upon price policy and this may well lead to the fixation of the minimum price at a level below the fair parity price.

(ii) During the post-transition period.

111. We must first consider in this connection the relation between agricultural prices and the general level of prices in the country. The price structure of a country is, and if it is not, it ought to be of an integrated character. The prices of industrial goods have to be in a certain relationship with the prices of agricultural goods, not only because the prices of agricultural goods enter into the cost of industrial goods but also because the prices of industrial goods determine to some extent the demand for agricultural goods on which agricultural prices must ultimately depend. The entire price structure of a country is represented by what is known as the general level of prices such as for instance, the Calcutta wholesale index number published by the Director of Commercial Intelligence, Calcutta or the wholesale price index computed by the office of the Economic Advisor to the Government of India. The general level of prices represents the prices of all types of goods, agricultural and non-agricultural, which enter into the trade and commerce of the country. It can be operated upon either by monetary measures which create effects on all goods or by measures intended to operate specifically on particular goods, whether agricultural or industrial. In a country

(a) Relation between agricultural prices and the general level of prices.

like India where agricultural products are the main object of internal as well as international trade, it is the prices of agricultural goods which predominate in determining the general level of prices. Any measures taken to influence the level of agricultural prices cannot but have effects on the general level of prices. Though the initiative can thus be taken through non-monetary measures directed towards agricultural prices, the desired effect can be achieved on a long-term basis only if the monetary policy pursued is of a complementary character. Only an appropriate expansion or contraction of currency with consequent effects on the general level of prices can ultimately sustain the tendencies initiated by measures acting upon agricultural prices. In practice therefore, attention will have to be paid while fixing prices to the relation of agricultural prices to the general level of prices.

112. We are aware of the desire in certain quarters to reduce the level of agricultural prices, particularly the prices of foodgrains, on the plea that agricultural prices influence the costs of production of industry, and weaken the competitive capacity of Indian manufactures in the domestic as well as in the foreign markets. While we are not unmindful of the importance of these considerations, we are of the view that prior consideration should be given to assuring an adequate return to the tiller of the soil. Once this is achieved the increased purchasing power of the agricultural masses will be adequate insurance for the success of industry. Any deliberate efforts to reduce agricultural prices merely to safeguard the interests of urban areas or of the manufacturing industry will be at the cost of the standard of living in the rural areas which is already notoriously low. The unorganised character of agricultural interests in this country has resulted in their case having gone by default in the past. A state of affairs in which urban prosperity, such as it is, has to be based on rural poverty cannot be tolerated in the future. While agricultural income must ultimately depend on the level of the national income of which it is a part, it is necessary to ensure that the return to the agriculturist is in parity with the return to other comparable classes of producers. The way to prosperity lies not in depressing agricultural incomes so as to give a wider margin of profit in industrial enterprise, but to undertake schemes of public investment on a scale which will stimulate an increase in the level of the national income itself. An attempt to bolster up urban industry by deliberately

cutting down rural standards lends an appearance of prosperity resulting in a false sense of security and complacency, with consequent delay in urgent measures of reform and reconstruction. If urban industry requires assistance by way of reduction in its costs of production, such assistance may be given by protective measures and subsidies on urban consumption rather than by a reduction in producers' prices.

113. We recognise however that the present high levels of prices and costs in the world generally and in India in particular, are the result of abnormal factors and a fall in prices is natural when conditions settle down. It is our view that any reduction in prices that may be necessary should be brought about by a policy of securing the maximum possible increase in production within the shortest possible period and not by a policy of deliberate monetary deflation. This will improve the supply position and ensure that the fall in prices is gradual and coordinated.

114. If circumstances warrant the bringing about of a fall in the general level of prices, we realise that a beginning may have to be made by operating on agricultural prices, since the prices of foodgrains and agricultural raw materials are the basis on which the entire price structure of the country depends. It is important, however, to ensure that the reduction is brought about gradually and without undue disturbance to the relation of agricultural prices with agricultural costs. We, therefore, recommend that any reduction made in agricultural prices as a preliminary to a reduction in the general level of prices should not exceed 12½ % or 2 annas in the rupee of the current prices in any year.

(*b*) Relation between prices of raw materials and prices of manufactures.

115. Attention has also to be paid to the relationship between the prices of specific agricultural raw materials and the prices of the goods manufactured therefrom. While it may be argued that the prices of manufactured goods should be so fixed as to reflect the prices of agricultural raw materials at whatever level the latter are fixed, the prices of manufactured goods often follow an independent trend in response to supply and demand conditions which resists any alterations therein. This is illustrated in the following table relating to raw jute and raw cotton, and their manufactures :—

Indices of Prices of Jute & Cotton, raw & manufactures.

(Base 1938-39 : 100)

Year.	*Index No. of loose jute prices at Calcutta*	*Index No. of prices of Hessian I. Porter.*	*Index No. of raw cotton prices.*	*Index No. of cotton manufactures.*
1929-30	127	150	201	160
1930-31	63	104	135	139
1931-32	80	101	125	123
1932-33	79	106	121	119
1933-34	61	117	113	113
1934-35	74	110	130	135
1935-36	80	101	134	117
1936-37	85	96	131	111
1937-38	83	86	109	117
1938-39	100	100	100	100
1939-40	166	172	141	106
1940-41	113	170	123	122
1941-42	154	226	148	171
1942-43	182	210	200	—
1943-44	214	258	196	—

(Compiled from the material supplied by the I.C.C.C. and I.C.J.C.).

It will be seen from the above table that the gap between the prices of raw materials and of manufactures has been to the advantage of the raw material producer in the case of jute until 1939-40, after which this tendency was reversed. In the case of cotton, the cotton grower does not appear to have made any clear gain except for a minor boom during 1934-35 to 1936-37. The reason why the primary producers have lost ground relative to the manufacturers since the commencement of the Japanese War is presumably the loss of certain overseas markets, which were particularly important in the case of jute and cotton. It will not be sufficient therefore to fix the prices of raw materials and manufactures merely on the basis of a relation which prevailed in a chosen 'normal' base period. It is possible that in the interim period changes may have taken place in the basic economic situation, such as the development of substitutes, shifts in the currents of international trade, technological improvements etc., all of which are likely to affect the concept of "normality". In fixing relative levels of prices of raw materials and manufactures therefore, these factors should be taken into account as far as possible. In circumstances where the prices of manufactured goods for one reason or the other do not permit of any adjustment, the situation will have to be met by making necessary adjustment in the prices of the raw materials themselves.

116. In the case of agricultural goods which have synthetic substitutes, the prices have to conform to the requirements of competition. While for a time it may be necessary to support the natural agricultural product in its struggle for survival, if the synthetic product is definitely superior and can be manufactured so as to satisfy the entire demand, the support to the natural product will have to be reduced by stages so as to permit a gradual shift by the agricultural producer to some other line of production.

(c) Relation between prices of agricultural goods and the prices of synthetic substitutes.

117. The level of prices within the country has to be in reasonable conformity with the trend of prices in the world as a whole. If prices are fixed at too high a level relatively to world prices, it may lead to the loss of markets, especially for export crops. On the other hand if domestic prices are fixed too low it will lead to reduction in the purchasing power of the masses and widespread unemployment and distress.

(d) Relation between domestic prices and international prices.

118. The link between domestic prices and international prices is maintained by the exchange ratio between the domestic and foreign currencies. In the case of India, it is provided by the stabilisation of the rupee sterling ratio of exchange. The rate at which this ratio will continue to be stabilised in the future will therefore in a sense determine the level of internal prices. The present ratio is fixed at one rupee equal to 1 sh. 6d, and changes in this rate are subject hereafter to the obligations that India has undertaken by virtue of its membership of the International Monetary Fund.

119. The rate of exchange between the rupee and foreign currencies has ultimately to be stabilised at a level at which it would broadly reflect the parity between the purchasing power of the different currencies. The general price indices for the major countries with whom we are on trading relations are shown in the following table :—

Indices of Wholesale Prices.

Year.	*U.K. (Board of Trade).*	*U.S.A. (Department of labour).*	*Canada (Dominion Bureau of statistics).*	*Australia (Melbourne).*	*India (Calcutta).*
1939	100.0	100.0	100.0	100.0	100.0
1940	132.9	101.9	109.9	110.1	111.1
1941	148.4	113.2	119.2	116.9	128.7

1942	155.1	128.1	126.8	131.5	171.3
1943	158.3	133.7	132.6	138.2	284.3
1944	161.1	134.9	135.9	139.3	275.9

(All indices have been converted to the base 1939-100).

From a comparison of these figures, it is obvious that the increase in the Indian price level has been larger than the increase in the price level in the United States of America or in the United Kingdom. The existing level of prices in all countries is however the result of exceptional circumstances of a temporary character and the current rates of exchange do not necessarily represent the correct relationship between the cost and the income structures in the different countries. The cost, income and price structure in all countries is affected at present by abnormal factors such as hoarding, speculation, dislocation of transport, suspension of supplies from normal sources and restrictions of various sorts. The existing ratio of exchange between the rupee and the sterling as also the ratios between the rupee and other currencies arising out of the rupee-sterling link are maintained at their present level by different devices of exchange control. The determination of an appropriate rate of exchange between the rupee and foreign currencies is therefore a matter of considerable importance from the point of agricultural prices.

(e) Financial resources.

120. The financial resources which the State can muster for enforcing its price support programme also constitute an important factor. As we describe in a subsequent chapter, it is possible to work the price support programme in a manner which over a course of years would involve no loss to the State. In embarking upon such a programme however, the State does undertake a financial liability which though of a contingent character has to be fully considered before the programme is launched. Purchase and sale operations on an adequate scale and the holding of buffer stocks of different types of produce are the main instruments of a policy of price support and these involve a large investment of capital. Though over a period of years the profit and loss on these operations may cancel out, in any particular year there does exist the risk of loss arising out of possible differences in the purchase and sale prices. Moreover, there is the question of the capital necessary for the execution of the programme. It is reassuring to note in this connection that the Government of India, in their recent Statement on the All-India Policy of

Agriculture and Food, have laid down the general principle that proposals will be judged not only on the basis of the direct financial return, but that full account will be taken of the indirect economic and social benefits to the country as a whole. At a time however when the State is about to embark upon large projects of reconstruction in different directions the demands for capital are likely to be larger than the savings available for investment. In these circumstances, the available capital will have to be rationed out on some basis of priority. While it is our opinion that a programme for supporting agricultural prices should receive a reasonably high priority in any plan of public expenditure, we realize the necessity of taking into account the availability of financial resources in deciding the level at which and the number of commodities for which prices are fixed.

(*f*) Effects on future production.

121. The fixation of prices encourages or discourages the future production of the commodities concerned and in the case of inter-related commodities, it influences the relative production of each of them. The price policy has therefore to be carefully coordinated with the general crop plan, so as to achieve the accepted production targets for each commodity.

(*g*) Assistance given through other measures.

122. Finally, account must be taken of any assistance given by the State through other forms such as provision of facilities at a price below cost, subsidised creation of demand, remission from taxation, etc. In fact, it will even be the duty of the price fixing authority to consider whether in the case of certain commodities, assistance may not more usefully be given partially or wholly, through any of these alternative methods. A guarantee of prices is only one, even if the most important measure of assistance, and the level at which the guarantee is made effective must be determined in the context of other forms of assistance as well.

(*h*) General.

123. The determination of minimum prices during the post-transition period is thus a highly complicated technical task involving the careful consideration of a number of factors and the balancing of the respective advantages of different courses of action. The interests of the agriculturists may call for a set of prices, which it may not be practicable to enforce for lack of sufficient financial resources. The general result may be that the minimum price may be fixed at a level below the fair parity price.

124. When the level of minimum prices is dependent on so many conflicting considerations, the principle of fairness is in danger of being side-tracked and the computation of the fair parity price proving of little practical use. Some of us therefore recommend that any reduction in the fair parity price on account of the considerations already referred to should not exceed 12½% of the fair parity price and the minimum price should be fixed accordingly. Other members of the committee are of the view that no limitation should be placed on the discretion of the price-fixing authority in this respect. We are all agreed however, that the computation of fair parity prices with the object of estimating the income that in fairness is due to the cultivator is a matter of cardinal importance. Even if in certain years the minimum prices may have to be fixed below the fair parity prices, we have no doubt that the two will tend to come closer to each other with rise in national income, increase in agricultural efficiency and experience of regulation.

(iii) Rock-bottom minimum.

125. As a further safeguard, we are of opinion that the minimum price should never be fixed so low as will make it of little practical value from the point of view of the ryot. Since certain items of agricultural costs are rigid in the short period, an unduly low minimum price may completely upset the economic balance of the countryside. In order to prevent such a contingency, we recommend that there should be prescribed an absolute rockbottom minimum, below which prices should under no circumstances be permitted to fall. There is no agreement amongst us as to the actual level of the rock-bottom minimum and the period for which it should hold good. Some members consider that it should be equivalent to the average price of wheat ruling in the principal producing areas during the quinquennium 1924-25 to 1928-29 viz a price of Rs. 4/8 for wheat at Layallpur, with the prices for other products in parity with the price of wheat and that this rock-bottom minimum should hold good for the next five years, after which the position may be reviewed afresh in the light of the general principles laid down. Other members consider that it should be equal to this average price raised by 25% viz a price of Rs. 5/10 for wheat at Lyallpur, with the price for other products in parity with the price of wheat and that this rock-bottom minimum should operate as a permanent part of policy. We are however unanimous that it is necessary to lay down an absolute minimum as a safeguard against a general depression.

126. We realise that a fall in agricultural prices cannot be avoided however, if a catastrophic fall takes place in industrial prices. Industrial prices are sensitive to international factors and in certain circumstances such as general over production, they are liable to fall to very low levels. In that case agricultural prices will also fall since such a fall is implicit in the parity approach and it may prove difficult to hold them even at the rock-bottom minimum level. We therefore recommend that Government should always watch the position with vigilance and if a pronounced downward tendency in industrial prices manifests itself, it should adopt monetary and all other possible measures to maintain industrial prices at a reasonable level so that any undesirable repercussions on agricultural prices may be avoided.

Fixation of the maximum prices.

127. As a corollary to the fixation of a minimum price below which market prices should not be permitted to fall, it is also essential to fix a maximum price beyond which market prices should not be allowed to rise. Just as a minimum price is necessary to safeguard the interests of the cultivator, so also a maximum price is necessary to safeguard the interests of the consumer.

128. The considerations which have to be kept in view in calculating the maximum price are the usual trade differentials, the storage charges during the season and the normal market fluctuations in prices. The range between the minimum price and the maximum price should not however be unduly large as it may lead to speculation, and thus defeat the object of ensuring stability in prices. At the same time, the maximum should not in any case be lower than the fair parity price, which is the objective to be constantly aimed at. In view of these considerations, we recommend that the maximum price should be fixed either (*a*) at a level 25% above the minimum price, or (*b*) at a level equivalent to the fair parity price, whichever of the two is higher.

Timing of announcement of the minimum price.

129. The minimum and maximum prices will have to be fixed and announced at different times. If the minimum price is to achieve the objectives aimed at, it is necessary to announce it sufficiently before the land is prepared for sowing. It is at that time that the cultivator will consider which crops he should sow and he would naturally take into account the relative profitability of the alternative crops which he may sow.

While his cropping scheme each year would be determined partly by his domestic needs of farm produce, and partly by the time of arrival of the monsoon sowing rains, he would attach importance to a guaranteed price for his surplus produce. The minimum prices fixed would thus influence his decisions.

Timing of announcement of the maximum price.

130. The maximum prices on the other hand should be announced after the crop prospects can be reliably forecast and in any case not later than the commencement of harvest. This will enable the supply position to be more correctly gauged.

Period for which prices remain fixed.

131. The prices, once fixed in this way, should continue to remain in force unaltered for a minimum period of one crop year. One of the important consequences of fixing minimum and maximum prices at a specified level during a crop year is that the grower will more readily market his surplus produce soon after harvest. After he has marketed his produce, the minimum price is no longer of importance to him, but it continues to be important from the point of view of the trader who holds the stocks and the banker who makes advances against the security of these stocks. The maximum price besides, which is based on the minimum price, is important from the point of the consumer all through the year. The price received by the grower more or less determines the price of the product at subsequent stages in the process of distribution throughout the year and a whole year is therefore the minimum period for which prices should remain fixed.

Revision of fixed prices

132. At the end of the crop year the position needs to be reviewed afresh, and necessary changes made in the prices fixed, in the light of such changes as may have taken place in the determining factors during the year. While it is desirable that as far as possible there should be maintained a certain stability in the level of prices over a course of years, no impression should be allowed to be created that any particular level of prices once fixed has become sacrosanct. It should be made known in unambiguous terms that prices are to remain fixed only for the crop year and that thereafter they are liable to revision as a normal procedure in the light of new circumstances. This needs special emphasis because of the tendency of prices to remain fixed at a high level even when they have resulted in an expansion of production to such an extent that it cannot be absorbed by the existing demand. The history of the

price support policies pursued in the different countries during the depression clearly reveals the danger of vested interests preventing a downward revision of prices even when conditions make it necessary, thereby giving rise to huge surpluses of production which have to be taken off the market by the State at considerable financial loss. This rigidity in price fixation was the outcome of pressure from vested interests and it brought the policy of price support into disrepute. It is therefore of importance that the public should be made fully aware that periodical revision of the prices fixed is a necessary part of price policy.

Regional price differences.

133. The prices fixed must be adjusted for regional differences. Normally, different prices prevail for the same commodity in different regions as a consequence of the costs of transport and the costs of handling involved in the movement of produce from one area to another and the differences in the supply and demand position. The costs of handling and transport together amount in the case of wheat and rice to about 26.3 p.c. and 28.3 p.c. respectively of the margin of difference, according to the information contained in the reports on the marketing of those products. The following table illustrates the wide range of price differentials as between the different Provinces in the country though the figures do not always refer to the same qualities.

Province	Average Harvest Prices (in Rs. per maund)			
	Rice		Wheat	
	Average Harvest price during quinquennium ending		Average Harvest price during quinquennium ending	
	1928-29	1938-39	1928-29	1938-39
	Rs. As.	Rs. As.	Rs. As.	Rs. As.
Assam ..	6 6	3 0	.. ..	.. ..
Bengal ..	6 15	3 6	6 1	3 4
Bihar ..	6 3	3 6	6 3	3 11
Bombay ..	8 2	4 10	7 8	4 3
C.P. & Berar	6 2	3 4	3 5	3 1
Madras ..	7 4	3 13	.. ..	.. ..
N.W.F.P.	4 10	2 11	4 12	2 7
Orissa ..	4 7	2 7	.. ..	.. ..
Punjab ..	5 3	2 11	4 9	2 5
Sind ..	9 12	4 5	6 8	3 1
U.P. ..	7 5	4 2	5 6	3 0

(Figures taken from the final Report of the Famine Enquiry Commission page 480).

While price differentials are likely to be narrowed down with the development of transport facilities and the improvements in the means of communication, certain price differentials will always persist as between different regions on account of the varying supply and demand conditions in different areas. The minimum prices fixed for the major producing areas should be the basis for arriving at the corresponding minimum prices for other areas after making suitable allowances for costs of transport, marketing and other incidental expenses. The maximum prices in each area should then be fixed on the basis of the minimum prices for that area.

Qualitative price differences.

134. Appropriate differentials for different qualities of a commodity have to be provided for so as to ensure that adequate premium is obtained for superior quality produce. Each product should be divided into three or four broad grades or qualities and standards for each grade or quality may be laid down; and produce which falls short of the standard laid down may be rejected by the State while carrying out its purchase operations. The minimum and maximum prices should be fixed on the basis of standard or fair average quality and suitable differentials should be allowed in respect of other grades and qualities.

Prices at different stages in marketing.

135. The fixation of minimum prices which are the wholesale prices at which the State guaranteed to purchase all the supplies offered and of maximum prices which are the wholesale prices at which stocks are sold by the State in the mandies influences the entire price structure and automatically sets a limit to the possible variation of prices at other stages of distribution. The regulation of marketing and the development of cooperative marketing will also operate in the same direction. It may however be necessary, in certain circumstances, to regulate the prices at intermediate and retail stages as well.

Recommendations of the Famine Enquiry Commission.

136. The policy recommended by us conforms in general with the broad recommendations of the Famine Enquiry Commission. The Famine Enquiry Commission while considering the question of increasing the food resources of the country recommended coordinated action on the following lines: "First, by to fix a minimum price which would be fair to the producer and a maximum price which would be fair to the consumer

and the revision of such prices from time to time. Secondly, the decisions as to the measures necessary from time to time to secure the maintenance of the price level within the pre-determined maximum and minimum and thirdly, the maintenance of an organization to carry out the measures decided upon". They emphasised that the objectives of long-term food policy were relevant to the problems of the transition period and need to be prominently kept in mind. What the Famine Enquiry Commission have recommended in relation to food policy is in our opinion also true of agricultural policy in general.

137. The recommendations of the Famine Enquiry Commission on the specific subject of the level of prices differ to some extent from our recommendations. The difference however is only procedural. The Famine Enquiry Commission state their view as follows:—" We think it is clear that it should be the common aim of all Governments concerned to secure as early as supply conditions in the transition period permit, that the prices both of rice and wheat in the different parts of the country should be brought down to the normal parity with the level of rice prices at present prevailing in Madras and Sind. We believe that if the actual prices that prevailed in the quinquennium ending 1938-39 were worked out in each Province and a price in the neighbourhood of 240 per cent of such average were determined the result would broadly represent the target price level to be aimed at the end of the first stage of the transition period. We do not imply that the proportion should be identical in all Provinces. But we feel that the fixation of a price as near as possible to 240 per cent of the pre-war level, would be appropriate in the major producing areas, that is in Bengal and Madras for rice and the Punjab and the U. P. for wheat, and if prices are fixed in Provinces in normal parity with such prices, they are unlikely to be very much in excess of or very much below 240 per cent". While this recommendation relates to the first period of the transition, they propose that "240 per cent of the pre-war level should be fixed as the maximum for the second stage, while the minimum should be fixed at about 180 per cent of the pre-war level". Their suggestion for a floor of 180 per cent of the pre-war level during the second stage is based on the fact "that is just below the average price level which prevailed during the quinquennium, immediately preceding the economic depression". They further state " that an attempt should be made to secure that the

prevailing price level of foodgrains within this limit is maintained in equitable relation to the prevailing prices of essential commodities of rural consumption such as cloth, kerosene etc."

138. The recommendations of the Famine Enquiry Commission for the first stage in the transition period have the objective of securing the diminution and eventual elimination of the wide price disparities that exist at present in the different parts of the country and of bringing down the prices in other parts to the level of rice prices at present prevailing in Madras and Sind which are the lowest in the country. Their recommendation for the second stage of the transition period is aimed at securing that the prices do not fall below the level which prevailed during the quinquennium preceding the economic depression. We believe that while it is essential to eliminate the wide differences in prices in different regions and restore the normal differentials as early as possible, it is more important both during the transition as well as during the long period, to correlate the prices of agricultural goods with agricultural costs and other relevant factors, since the level of agricultural prices cannot be determined independently of the general economic situation. It would be impossible and even undesirable to maintain agricultural prices at 240 per cent of pre-war or even at 180 per cent of pre-war if agricultural costs and the general level of prices fall steeply and make agriculture sufficiently remunerative at lower levels of agricultural prices. In such circumstances, supporting agricultural prices at higher levels would be unfair to the consumer and more than 'fair' to the agriculturist. On the other hand, if agricultural costs and the general level of prices remain high, then 240 per cent of pre-war may prove too low and agricultural prices may have to be supported at higher levels in the interests of the maintenance of production and the equitable distribution of incomes. We are of opinion therefore that while the figures mentioned by the Famine Enquiry Commission may afford useful guidance, the principles of price-fixation should be so formulated that they will prove capable of general application both during the transition and during the long period.

Commodities selected for price fixation.

139. When a policy of price-fixation is adopted, it is necessary that prices should be fixed for at least the major crops in the country. The fixation of prices of only one or two crops is likely to lead to the expansion of cultivation of the more profitable crops to an extent

which might create a scarcity in the production of other crops, thereby upsetting the balance of production. We note that the Famine Enquiry Commission have stressed the supreme importance of stabilising the price of wheat and rice on the ground that food crops constitute roughly 4/5th of the cultivated area of the country and of these, wheat and rice are the most important. Wheat and rice are besides practically the only food crops which enter in large quantities into inter-provincial trade within India and are directly affected by the supply and demand conditions prevailing in the world markets. While we agree that the prices of wheat and rice should be supported, we are of opinion that this alone will not succeed in maintaining the prices of other produce at a reasonable level without the extension of specific guarantees for each one of them. In our view the prices of important millets like Jowar and Bajra will also have to be fixed, in order to maintain the prices of the cereal group as a whole. In addition, though the fixation of the prices of cereals may be sufficient from the point of view of increasing the production of food, this involves the danger of upsetting the general pattern of production so far as crops other than food are concerned. In future, it will be necessary to have a conscious planning of the production of all the various major crops of the country and the price policy will have to be adapted for this purpose. It will not be wise therefore to leave out important crops such as cotton, jute, sugarcane, etc., although they may be outside the cereal group proper. It may be noted in this connection that many of these crops compete with food crops for the purpose of cultivation and the price factor largely influences the production plans of cultivators. For instance, during the last few years, the acreage under jute in Bengal has been continuously below the area licensed because the price of paddy made cultivation of paddy more attractive than the cultivation of jute. A policy of fixing the prices of paddy without fixing the prices of jute might produce similar results. We understand that the Indian Central Cotton Committee, the Indian Central Jute Committee and the Indian Central Sugarcane Committee have worked out future targets of production for these crops and similar targets will have to be worked out for other commodities. If the prices of only a few commodities are fixed while the prices of other commodities remain unfixed, there is a danger of lop-sided production which may upset the crop plan as a whole. It should not however be taken to mean that we suggest that the price of each and every commodity should be

fixed and supported. It is known from experience that the prices of certain commodities influence the prices of related commodities so that the fixing of the prices of some commodities produces a parallel movement in the prices of others. It would therefore be sufficient to fix prices of those commodities which play a pivotal role in the general production structure.

Conclusion. 140. The determination of minimum and maximum prices and their continuous adjustment in the light of changing circumstances is thus a complicated task involving careful consideration of the various factors involved and balancing of the respective advantages and disadvantages of the different courses of action. The level at which prices should be fixed cannot be left merely to the automatic working of an arithmetical formula such as the one implied in the idea of a parity between agricultural prices and costs, though such a formula will no doubt be of considerable assistance as a broad indicator of the course of action called for. The prices have to be fixed in the light of many other considerations such as the practicability of enforcement, the targets of production and the adoption of higher standards of agicultural technique. The task therefore needs to be entrusted to an independent body specially constituted for the purpose which can be depended upon to weigh the importance of the different factors involved and decide with impartiality and technical knowledge the level at which prices should be supported.

CHAPTER V.

Principles of Price Enforcement.

Necessity of enforcement measures.

141. The determination of minimum and maximum prices will serve little purpose unless specific measures are taken to ensure that the actual prices ruling in the market are within this range. In a free market, prices continually fluctuate in response to changes in conditions of supply and demand, and the fluctuations are often quite out of proportion to the casual factors involved. Some of the causes of disturbance are essentially of a temporary character which, if appropriate steps are taken in time, need not affect the prices at all. It is therefore necessary to intervene effectively in the market if the minimum and maximum prices are to be actually enforced.

142. The announcement of minimum and maximum prices itself creates a beneficial effect on the market by making known to it the policy of Government regarding the range of fluctuations, thereby reducing speculative transactions. The announcement influences the market sentiment in the direction of the support prices, and the task of enforcement is to some extent eased.

143. The moral effect of the announcement will not however go far enough unless the announcement is backed by sanctions of a more effective nature. There are always bound to be forces in the economic system which may get out of hand, and unless the powers taken by the State are sufficient to control these forces, the authority of the State will be brought into contempt with consequence demoralisation of the market.

144. We are of opinion that any proposals for the enforcement of prices should be formulated in the context of a competitive economy with freedom of private enterprise. The policy should be to operate upon the forces of supply and demand in the market and influence them in the desired direction. This can only be done by operations which will influence the quantity of goods available in the market for sale and the volume of demand that comes forth for their purchase. While the mechanism of the market will then be outwardly retained for the determination of prices, the determining forces will themselves be modified in a manner which will result in the prices aimed at. By regulating the supply and demand that is permitted to be effective in the market, the State will in effect control the prices; but the control will be tempered by the fact that it will

operate through the market mechanism. It will simplify the machinery of regulation and reduce its application to a minimum. During the transitional period and even in the post-transition period when conditions of emergency warrant it, statutory price control and procurement operations may have to be resorted to, but in normal times the general policy should be to control individual enterprise in the public interest rather than replace it by State management. The aim should be to harness the competitive instinct towards social ends.

State purchase and sale.

145. The most effective method of enforcing the price policy in a competitive market, is for the State to enter into the market and carry out purchase and sale operations on its own account. The State should prevent prices from falling below the floor level by purchasing freely at floor prices, and from rising beyond the ceiling level by selling from its buffer stocks. Its capacity to influence the prices will of course depend upon the financial resources at its command and the reserve stocks in its possession.

146. This method has been commonly employed for influencing the money market and the market for foreign exchange. Central Banks have used the technique of open market operations in Government securities for influencing market rates of interest whenever the Central Bank rate has proved unsuccessful by itself, and at times, open market operations have even been preferred to changes in the bank rate as an instrument of monetary policy. While open market operations in Government securities for influencing market rates of interest have been usually discretionary, open market operations for maintaining the stability of the rate of exchange have been more mandatory in character. Central Banks in many countries are responsible for maintaining the stability of exchange rates between domestic currencies and foreign currencies, and for that purpose are required by law to purchase and sell domestic and foreign currencies at declared prices. These operations were a normal feature of the working of the gold standard, and it was only when the legal obligation to sell gold could not be carried out for lack of sufficient stocks of gold that the gold standard was abrogated. In the subsequent period, exchange equalisation funds were constituted in many countries and though these funds were not legally required to buy or sell at stated prices, they did in fact operate in the market on their

own initiative in order to eliminate temporary and unnecessary fluctuations in the rate of exchange.

147. Mere monetary measures however, whether in the sphere of domestic credit or in the sphere of foreign exchange, cannot produce their full effect on the national economy because of the resistence offered by the prices of particular commodities. The general level of prices on which the monetary measures are designed to operate is nothing but an average of the prices of individual commodities and these react with varying degrees of time-lag to the changes in monetary circulation. It is therefore necessary, even for the success of monetary policy itself, that simultaneous measures should be taken directed towards regulating the prices of individual commodities by extending to the commodity markets the same technique of open market operations which is at present adopted for influencing the money market.

148. The method of State purchase and sale has been widely used in the U.S.A. as a means of stabilising prices ever since the inception of the A.A.A. in 1933. To begin with, commodity loans were advanced to producers on specified commodities at minimum rates fixed on the basis of the parity price of the commodity. If market prices fell below this level, the producer simply transferred ownership of the collateral to the Commodity Credit Corporation which thereupon cancelled the loan. The producer was thus freed from liability for any loss arising from the sale of the collateral securing the loan, which meant in practice that he was guaranteed a minimum price. In order to protect itself against a fall in prices the Government linked up the provisions relating to commodity loans with those for marketing quotas, making the grant of loans contingent upon producers accepting a quota allocation in the market on a quantity or acreage basis. This was done whenever prices threatened to fall as a result of increased production. The system of commodity loans enabled the Government to postpone taking over actual possession of the goods until the prices had fallen below the minimum fixed level. The produce could continue to be stored on the farms, and to that extent the risk to the Corporation was reduced.

149. After the outbreak of the war, while the method of commodity loans was continued for grain and cotton, direct purchase from farmers was also resorted to for

a number of other field crops and for wool and dried fruits as they could be easily stored and therefore handled without much risk by the Commodity Credit Corporation. Where the farm produce was a raw material entering into the production of a processed commodity, the Corporation guranteed to purchase the processed commodity from the dealers and processors at fixed prices, on condition that they paid fixed prices to the farmer for their purchases of the raw material.

150. In India, the method of commodity loans cannot be of general application, because the farmers cannot afford to make efficient arrangements for storage of their produce, and the value of the collateral is likely to depreciate rapidly if loans are advanced to them. Commodity loans can with more convenience and with greater security be advanced to co-operative societies if they have godowns of their own, but the cooperative movement has not yet developed sufficiently on the marketing side to enable wide use to be made of such loans. Loans can be advanced to processors and dealers in the case of commercial crops, since the trade in such crops is generally well organised and has adequate arrangements for storage; even in this case however there is the difficulty of ensuring that the benefits reach the actual cultivator.

151. Under the circumstances, it is desirable that in India the State should undertake direct purchase and sale operations, even though it involves the construction of warehousing and godown accommodation on a considerable scale with attendant risks. We therefore recommend that the State should extend a guarantee to purchase whatever quantities of produce may be offered to it at the minimum price and undertake to release stocks at the maximum price. The State however should remain free to purchase on its own initiative any quantities in the market at the current price for the purpose of building up its buffer stocks and turning over the stocks from time to time.

Enforcement of minimum prices.

152. It is necessary that the guarantee to purchase at the minimum prices should be effective at all important market centres in the country. If it is made effective only at a few centres in a Province, then the producers in distant parts may not be able to reap the advantage of the minimum price by selling their produce direct to the State and the benefits of the guarantee would be received only by the traders and

the wholesale dealers. In a predominantly agricultural country like India with producers educationally backward and traditionally tied to the local money-lender and trader, it is of the highest importance to so organise the purchase operations that the guarantee will be effective within a few miles reach of every villager in the country, its effects permeating the entire field.

153. The guarantee of a minimum price will call for measures of regulation designed to facilitate its implementation. These measures will include the regulation of imports and of acreage under crops, the control of agricultural rents and wages, and the enforcement of adequate standards of farm management. The State will have to employ some of these measures as a normal course, while in the case of others it should obtain reserve powers for use in special circumstances.

154. The regulation of imports will be necessary in order to avoid undue strain on the purchasing organisation. If the domestic price of a commodity is higher than its price abroad, there will be a tendency to import that commodity until the increased supply in the home market reduces the domestic price to parity with the international price. If movement of goods into the country is unrestricted, then the open market operations that the State may be required to undertake would be of such dimensions that they may prove to be beyond the financial resources of the State. With unrestricted imports, the State may find itself saddled with an enormous volume of stocks without having succeeded in enforcing the minimum prices in the market. In order to avoid such a contingency, the regulation of foreign import is an essential corollary to any policy of price fixation.

(i) Regulation of import trade.

155. It should be open to the State to regulate imports by any method that may be suitable in each case. One method of regulating foreign trade which was in common use during the depression and during wartime was the control of foreign exchange. The possibilities of exchange regulation are however now restricted within very narrow limits by India's membership of the International Monetary Fund. The methods by which the domestic level of prices can still to some extent be insulated from international prices are tariff duties, licensing and quota restrictions and State trading.

156. Each of these methods has its own advantages. Tariff duties have the advantage that they permit free movement of goods subject to the payment of the tariff and therefore provoke less resentment from the trade than quantitative restrictions. On the other hand, they suffer from the handicap that they cannot be revised at short notice in the light of changing circumstances, unless they are sliding scale tariffs, as tariffs are usually imposed by legislative action and not by executive direction. Quantitative restrictions through the fixation of quotas and the allocation of quotas amongst the licensed traders have the advantage that they definitely determine the actual quantity of trade. They can be altered as may be necessary by executive action, thereby enabling a continuous adjustment with requirements of policy. On the other hand, they are looked upon with greater disfavour by foreign traders because of the rigid barriers that they erect. State trading involves the canalising of trade through a State corporation so as to maintain domestic prices at a level different from international prices, the corporation absorbing the difference. If the domestic price is higher than the international price and imports of a commodity are stimulated on that account, the State corporation can purchase those imports at the international price and release them in the home market at the domestic price, keeping the profit for itself. State trading can thus be carried on in a manner which will be less open to objection by the countries with which we have trading relations than either tariffs or quotas. While tariffs and quotas definitely restrict the volume of trade and to that extent may be objected to by foreign traders, a State corporation by canalising all imports through itself can be worked without doing harm to the interests of other countries. State trading to this extent is quite consistent with the continuance of private trade as the corporation need only work as a directing, financing and regulating mechanism, leaving the actual dealings to the channels of trade.

157. We are by no means unmindful of the principles laid down in the Atlantic Charter which call for relaxation and ultimate abandonment of all types of obstructions to international trade and commerce. We are also aware that a Conference is being convened by the United Nations for the purpose of considering the setting up of a permanent international organisation for securing coordination between national economic policies, maintaining a high and stable level of employment, and reducing barriers to trade and commerce. While we

are in full sympathy with these general objectives, it is in our view important to bear in mind that expansion of trade by the reduction of barriers is not an end in itself. Though such an expansion of trade is necessary for the maximum utilisation of the resources of the world and for the concentration of production in the lowest-cost regions, it is after all only a means for securing high and stable levels of employment and satisfactory standards of living within each of the mutually trading areas. The means must therefore be adapted to the circumstances of each country if the end is to be attained in all of them. Though access on 'equal' terms to the trade and raw materials of the world may be a desirable and ultimate goal of policy, the fact remains that at the present moment different countries are in entirely different stages of economic development and backward countries must first accelerate the tempo of their development so as to get in line with the more advanced countries.. It has to be recognised that this will naturally involve regulation of international trade by backward countries and that such regulation may have a prejudicial effect for the time being on other countries though every effort should be made to mitigate such effects. It is essential that the economy of each country should be developed in a balanced manner and to the fullest extent in as short a period of time as possible, because unless all countries are relatively in the same stage of economic development, full economic collaboration on equal terms will not be feasible and free trade will not be restored. We therefore recommend that any international obligations that India might enter into in the future, should be consistent with her freedom to regulate her international trade in such manner as may be necessary for the enforcement of her agricultural price policy.

(ii) Regulation of rents and wages.

158. The regulation of rents and wages is necessary as a corollary to price policy in order to ensure that the benefits of the price guarantee reach the actual cultivator and the agricultural labourer. There is the danger that the landlords may use the price guarantee as a pretext for raising rents on the ground that the tenants get higher prices for their produce. The agricultural labourers who are entirely unorganised and are not always aware of what in fairness is due to them may continue to be exploited unless steps are taken to enforce the payment of minimum wages to them.

(iii) Regulation of acreage.

159. In special circumstances, the State may need powers to regulate the acreage under crops. The limitation of

supplies at the source by controlling production is one of the most effective methods of maintaining support prices, and it was extensively used in the United States of America under the Agricultural Adjustment Act. As a matter of fact, during war-time, attempts have been made in India as well to regulate the acreage under particular crops in certain areas. Since 1940, the acreage under Jute in Bengal has been regulated by a licensing system which sets an upper limit to it in each year. The Indian Central Cotton Committee has been fixing cotton acreage targets since 1944-45, and although these targets are not enforced by legislative action as in the case of Jute, various measures have been taken to reduce cotton acreage to the targets laid down. Legislative action has been taken through measures such as the Bombay Growth of Food Crops Act (1944) to increase the acreage under food crops. The principle of regulating the acreage under crops is thus already adopted in certain cases and we recommend that it should form a permanent feature of agricultural policy in the future.

(iv) Enforcement of standards of management.

160. The State should also have the power, for use in special circumstances, to enforce adequate standards of management in farming so that the landlord, enjoying the security of guaranteed minimum prices, should not remain free to neglect his land. In fact, the power to enforce efficient methods in agriculture is a necessary complement to the power to regulate acreage under different crops since efficient and intensive cultivation is no less important than increasing the cultivated area for purposes of expanding production.

Enforcement of maximum prices.

161. The maximum price will have to be enforced by the State by selling judiciously from its reserve stocks at that price. The experience of price control during the war has shown clearly that unless adequate stocks are maintained for the purpose of releasing them in the market in times of scarcity, the attempts to hold prices below the maximum will fail. Unless trading interests are convinced that Government have in their possession the physical resources necessary to break the back of a rising market, control of maximum prices will be ineffective. Though the undertaking to release supplies will normally become operative only when the market price reaches the maximum, the State will be free to sell at its discretion at any price and it should in fact, begin to operate as soon as the market prices show a pronounced tendency to move towards the maximum.

162. The undertaking to supply produce at the maximum price should be made effective in the principal mandis in order to put an effective ceiling to the wholesale market prices every where. The price at which the retailer sells the produce to the actual consumer will be somewhat higher than the wholesale price, but since it would be closely related to the wholesale price, the release of supplies at the maximum price cannot fail to influence the retail price to the consumers.

163. Although normally an undertaking by the State to provide supplies to the market by sales from its own stocks will be sufficient to prevent prices from rising above the maximum, it will be necessary to have certain reserve powers to meet unforeseen emergencies. We are of opinion that the State should be armed with the reserve power to undertake statutory price control and to prohibit a seller from taking or a buyer from offering more than a prescribed price and a buyer from offering or a seller from taking less than a prescribed price. Statutory price control when it is imposed will be accompanied by penal measures for any breach of the law and by an administrative machinery for policing the market. The State should also be armed with reserve powers to requisition supplies and regulate the distribution of supplies by rationing, whenever necessary.

National reserve stocks.

164. The crux of the problem however, both in the enforcement of the minimum as well as of the maximum prices is the holding of reserve stocks on an adequate scale. The stocks in the possession of the State must be adequate for the purpose, and the State should be in a position to add to them or draw upon them as the situation may require. Then the State will be able to intervene effectively in the market by adjusting its purchase and sale operations to the changing supply and demand situation.

165. While deciding the size of the reserve stocks, it must be taken into account that the reserve stocks maintained will also have to serve as a famine emergency reserve. Experience has shown that in any year the monsoon rains may be so deficient as to result in partial or total crop failure over wide areas. It is not always possible to obtain imports at short notice for making good the deficit arising from this cause and the State should therefore have a sizeable emergency reserve as an insurance against crop failure. We thus envisage a dual-purpose reserve, which will function both for enforcing prices and for meeting emergencies. While the

purposes for which such a reserve is to be utilised should be kept distinct and provision should be made for all contingencies, the reserve cannot obviously remain in two water-tight compartments. In the case of foodgrains in particular, a famine will call for the utilisation of all available stocks and it will be impossible to earmark any part of the reserve for any purpose other than relief. The reserves should be maintained at selected strategic centres within the country so as to enable them to be rushed at short notice to those threatened points where the market prices show signs of departing from the prescribed limits or where conditions of famine emerge.

166. The reserve should be exclusive of the stocks normally held by the market for meeting the gap between current demand and supply requirements. The reserve will for the present have to be built up from imports, since internal foodgrains production is deficit to requirements and imports fill up the gap. When production within the country expands, such reserves should be increasingly built up from internal surpluses and the dependence on imports reduced.

Monetary policy.

167. While a guarantee to purchase at the minimum price and an undertaking to sell from reserve stocks at the maximum price accompanied by open market operations are in our view indispensable for enforcing the prices fixed, we desire to emphasise that these measures will succeed only if the monetary policy adopted by the State is of a complementary character. Though market prices can be influenced by State purchase and sale operations, these operations can only cope with marginal quantities, and the supply and demand for the commodity as expressed through money terms will still remain the real basic forces for the determination of market prices. The level at which market prices can be maintained will ultimately depend upon the level of national incomes and the purchasing power of the population. It is only by pursuing a monetary policy which will stimulate general economic development and raise the national income, that we can create an environment within which the price-guarantee can be made effective.

168. The responsibility for enforcing the measures recommended by us should be entrusted to a State corporation specially constituted for this purpose. It should carry out the necessary purchase and sale operations and regulate the import and export trade in order to implement the price fixation programme. It will need fixed capital for the construction of the necessary

storage accommodation and working capital for holding the reserve stocks, meeting the expenses of turnover and carrying out purchase and sale operations. Its annual operating costs will include charges on account of interest on fixed and working capital, depreciation and maintenance of godowns, deterioration of reserve stocks, storage, staff etc. The operating costs should in the long run be met out of the profits of the corporation. It may make a profit out of the difference between the prices at which its purchase and sale operations are executed in the domestic market and also out of the difference between the domestic and international level of prices to the extent of its import and export transactions. The corporation should build up a strong reserve fund out of such profits to enable it to tide over difficult years.

International machinery.

169. We are glad to note that measures such as the ones recommended by us are also contemplated on an international basis. The F. A. O. has under consideration a proposal to set up a World Food Board, whose functions will be to stabilize the prices of agricultural commodities over the world market, to establish a World Food Reserve which will be adequate to meet any emergency that may arise through failure of crops in any part of the world and to finance the disposal of surplus produce through special terms to countries where the need for them is most urgent. There is also a proposal to set up an International Organisation for Trade and Employment, and various Commodity Commissions with functions more or less similar to those already mentioned. The establishment of an International Wheat Council is also contemplated. In course of time, these various bodies may be suitably coordinated through a single machinery under the United Nations Organisation which will deal with agricultural commodities on an international basis and maintain their prices within certain minimum and maximum limits. The national price policy should then be suitably integrated with the international price policy and the machinery set up within the country should work in close touch with the United Nations Organisation.

Nature of the commodities selected.

170. The principles of enforcement will have to be suitably adapted to individual commodities. With some commodities the demand for which is steady and easily predictable, a relatively smaller reserve may serve; with others, the demand may be erratic, stocks may easily accumulate, and control of the market may require larger reserves. There may also be technical and

physical factors which limit the period for which reserves of different commodities can be kept. Some commodities may be dependent on foreign markets for the disposal of surpluses, and beyond a point, it may be dangerous to hold supplies off the market, as was seen during the regulation of wheat in Canada, cotton in the U. S., and coffee in Brazil. Others may be dependent on home markets and may be relatively insulated from international factors. A large variety of factors will thus have to be taken into account.

171. A broad distinction may be drawn between (*i*) foodcrops, (*ii*) commercial crops, and (*iii*) animal husbandry products. Foodgrains cover the largest proportion of the cultivated area in the country, amounting to over 80 % of the total, but the country yet has a net deficit each year and has to rely partly on imports. The major foodgrains are rice, wheat, jowar and bajra. In commercial crops, we include cotton, jute sugarcane and the oilseeds. The trade in animal husbandry products amongst which milk, eggs and fish are the most important is confined mostly to somewhat isolated local markets in the country. We examine the essentials of a price policy for each of these groups of commodities in subsequent chapters.

Need for a comprehensive programme.

172. The success of enforcement measures will also depend upon the number and character of the commodities selected for price support. While equity may demand the extension of price guarantees to all agricultural commodities, it is important to keep in view financial and administrative aspects of the problem and the need to hasten slowly in a new and practically untried field. We are therefore of the opinion that price guarantees should first be tried out in respect of a few important commodities and later extended gradually to cover all the strategic commodities in the field of agricultural production. At the same time, the dangers of applying the policy to far too few commodities cannot be ignored. Any isolated attempt to support the prices of a crop or two may lead to diversion of acreage, mounting surpluses and problems of disposal. We are strongly of opinion therefore that price-guarantees should be tried out over a fairly large sector of our agricultural economy right from the start. If a halting and half-hearted policy were to be pursued and the guarantees extended to only one or two crops on the score of cautious experimentation and financial prudence, the resulting inevitable failure may be held up as an argument for a policy of inaction in the future and incalculable harm done to the cause of farmers in this country.

CHAPTER VI.

Price-policy for Food Crops.

Importance of foodcrops.

173. The necessity of extending the policy of price fixation to food crops needs no special emphasis. Firstly, since over 4/5ths of the cultivated area in India is devoted to food crops, the income of the bulk of the agricultural population depends on the prices of such crops. Secondly, in spite of such a high proportion of our land being under food, our national production still falls short of our repuirements and an assurance of a remunerative price is necessary for stimulating food production. The average annual net imports for the 5 years ending 1941-42 amounted to about 1 million tons and the Foodgrains Policy Committee came to the conclusion that annual imports on the same minimum level would be necessary in the future. The Famine Enquiry Commission allowed for a further 2 million tons on account of the increase in population since 1941-42, thus estimating the annual requirements of imports at 3 million tons. The deficit in domestic production would be even larger if targets are framed on the basis of a minimum nutritive diet for the whole population. Imports have no doubt to be resorted to as a short-term measure, but our experience during the past year has shown how difficult it is to secure adequate imports in an emergency. In the case of foodgrains which are vital to the life of the people, it is unwise to place ourselves in a position where we would be dependent on other countries and immediate steps have to be taken to expand food production within the country to the maximum extent feasible. An appropriate price-policy for food crops is thus of first priority not only from the point of maintaining agricultural incomes but also from that of securing maximum output.

Consumption subsidies.

174. A price policy may not always be able to reconcile the necessity of assuring a remunerative price to the producer and keeping the price within the means of the consumer. In course of time we have no doubt that this conflict of interests would be resolved, since our proposals are only a part of a more comprehensive programme of economic development which will result in a general rise in the level of incomes and employment. Until the price policy has produced the expected increase in efficiency and output per acre however, the price fixed may in some cases prove beyond the means of certain classes of consumers. The remedy in such cases lies in the grant of consumption subsidies to the classes of

consumers affected. Subsidies on consumption were a common feature of war-time policy in the U. K. and the U. S. A. and any undue increase in the price of essential food-stuffs was thereby avoided. In India also, the principle has received acceptance in the sale of foodgrains at cheap rates to essential workers during the war and the supply of milk on concessional terms to children and expectant mothers in certain towns. A separate Committee set up under the auspices of the Central Food Department is examining the question of food subsidies and we make a reference to it only because of its bearing on price the policy. Such subsidies will be necessary until increased productivity of land permits a reduction in the prices fixed.

Price policy for foodcrops.

175. The fixation and enforcement of minimum and maximum prices for food crops should be according to the principles we have already discussed in the previous chapters. During the transition period, the minimum prices for foodgrains should be equivalent to the fair parity prices and all the produce that is offered to Government should be purchased by it at those prices. In the post-transition period when normal supply and demand conditions have been restored, the minimum prices for foodgrains should be fixed after due allowance is made in the fair parity prices on account of the various factors indicated by us. This may mean that in certain circumstances the minimum prices may have to be fixed at levels below the fair parity prices. According to some of us, any reduction in the minimum prices below the fair parity prices should be limited to a maximum of 12½%, while according to others, no limitation should be placed upon the discretion of the price-fixing authority in this respect. The market prices should under no circumstances be permitted to fall in future below a rock-bottom minimum level. This limit is set by the fixed elements in agricultural costs and a fall in the market prices below this level will upset the economic balance of the country side. The Sub-Committee are unanimous in the view that the State should undertake the obligation to prevent prices from falling below such a rock-bottom minimum. Some members of the Sub-Committee consider that this undertaking should operate only for the next five years after which the position may br reviewed afresh in the light of the general principles laid down, while other members of the Sub-Committee consider that it should operate as a permanent part of policy. As regards the actual level of the rock-bottom minimum, some members of the Sub-Committee hold the view that it should be equivalent to the average price of the commodity concerned in the principal producing areas, during

the quinquennium 1924-25 to 1928-29, e. g. Rs. 4-8-0 per md. for wheat at Lyallpur with prices of other commodities in normal parity with it; other members are of opinion that it should be 25% above this average, i. e. Rs. 5/10/0 per maund for wheat at Lyallpur with similar differentials for other commodities. During the transition as well as during the post-transition periods, the minimum prices should be determined for each crop for the major producing areas, and the minimum prices for other areas should be worked out therefrom making sufficient allowance for the normal costs of transport, marketing and other incidental expenses. The maximum prices for each area should be fixed on the basis of the minimum prices fixed for that area. It should be the object of State policy to maintain market prices of food grains within the limits set by the minimum and maximum prices fixed and for this purpose the State should guarantee to purchase all supplies of such food grains offered to it at the minimum prices and undertake to provide supplies to the market by sales from its own stocks at the maximum prices. It should also take the other measures which we have previously described to enforce its policy.

176. A policy of price fixation for food crops has the advantage that it can be easily implemented through the existing administrative machinery. The Central and Provincial Food Departments are already operating a system which involves the procurement of stocks from within the country and from abroad, the planned movement of internal stocks from surplus to deficit areas and the rationed distribution of grains in urban areas. The procurement operations of the Government profoundly influence the prices in most markets though the degree of influence varies according to the extent to which the method of procurement approximates to a Government monopoly. The central feature of our scheme, viz, buying and selling operations by the State undertaken to influence market prices is thus already in operation in a modified form. We consider that the experience gained by the Agriculture and Food Administrations during the war should be fully drawn upon and utilised for implementing the price policy in future. The present activities and policies of the Food administrations should also be orientated during the transition period on the lines of our proposals so as to facilitate their full implementation when the machinery recommended by us in a subsequent chapter is set up.

Selection of foodgrains for price-fixation.

177. When a policy of price fixation for foodgrains is adopted, the question arises as to which of the different

grains should be selected initially for its application. The Famine Inquiry Commission, after making out a case for the fixation of the prices of cereals in general, have expressed the opinion that in practice this would mean control of the prices of rice and wheat, the cereals which enter largely into international trade. In our view, however, the control of the prices of jowar and bajra is no less important. The following table shows an estimate of the average all-India acreage (reporting and non-reporting areas included) under different cereals during the normal period of 1936-37 to 1938-39 and for the year 1943-44.

Area under Cereals

(in '000 acres)

	Normal.	*1943-44.*
Rice	77,622	84,938
Wheat	35,705	34,859
Jowar	38,129	39,425
Bajra	19,487	24,222
Maize	8,129	8,712
Barley	7,174	7,634
Ragi	5,780	5,734
Small Millets	8,509	8,643
	200,535	214,167

(*Source : Worked out from figures given in "Food Statistics of India", Statement No. XIII.*)

During both the periods under reference, the area under jowar and bajra, taken together, accounted for 28% of the aggregate area under all cereals as compared with 38% under rice and 18% under wheat in the normal period. In the year 1943-44, moreover, there has been a large increase in the acreage under bajra. Thus from the point of view of acreage, jowar and bajra are of considerable importance. Since millets and cotton are substitute crops and diversion of area from one to another is possible, we consider that it will be necessary to include millets in the price-fixation programme. Millets play a predominent role in the economy of certain regions, particularly the unirrigated zones. More than one-third of the acreage under millets is concentrated in Bombay and Madras. In Bombay, it accounts for about 40% of the net area sown for all crops, while in Madras the percentage is about 25%. Since millets are consumed entirely within the country, it will by no means be difficult to bring them within the

ambit of a price-fixation policy. Government have already fixed minimum and maximum prices for jowar and bajra in the principal producing areas and we see no reason why the policy should be discontinued. For these reasons, we are of opinion that price-fixation should be extended in respect of rice, wheat, bajra and jowar from the beginning and not confined only to rice and wheat, as suggested by the Famine Inquiry Commission.

Size of reserve stocks.

178. Assuming for the present that among the food-crops, price-fixation is confined to wheat, rice, jowar and bajra and is operative only in British India, an estimate of the quantity of reserve stocks required for implementing the policy has first to be worked out. Since buffer stocks are intended to enable the State to sell in periods of short supply and to buy in periods of excess production, one possible approach is to estimate (*i*) the quantity that is likely to be required by the consumers in periods of short supply, and (*ii*) the quantity that will need to be taken off the market by the State in periods of excess production. Since a deficit in the production of one crop may be made up by increased production of another, it is desirable to use figures of aggregate production when determining the excess and deficit. Moreover, the entire production does not come to market and the reserve stocks required have therefore to be related only to the marketable surplus of the growers. In the present context, normal production is determined with reference to the most likely production during any given year in the light of past experience. The most likely production is that which was typical of the largest number of years in the past, or in other words the mode. The mode has therefore been used in the calculations which follow.

179. We give below a table showing the production in British India of the four foodgrains under reference, for the period since 1919-20, and the maxima, minima and modes of each as well as of the aggregate.

Production of Wheat, Rice, Jowar and Bajra
(in million tons)

BRITISH INDIA (excluding Indian States)

Year.	*Wheat.*	*Rice.*	*Jowar.*	*Bajra.*	*Aggregate*
1919-20	8.6	28.0	5.6	2.8	45.0
1920-21	5.7	23.3	3.6	2.0	34.6

Year.	*Wheat.*	*Rice.*	*Jowar.*	*Bajra.*	*Aggregate.*
1921-22	8.4	27.8	5.6	2.6	44.4
1922-23	8.2	28.5	5.0	2.4	44.1
1923-24	8.0	23.6	4.3	2.2	38.1
1924-25	7.2	25.2	4.2	2.0	38.6
1925-26	7.2	25.2	4.2	2.0	38.6
1926-27	7.4	24.1	4.2	2.5	38.2
1927-28	6.4	22.7	4.9	2.4	36.4
1928-29	7.3	26.5	4.7	2.1	40.6
1929-30	9.0	25.8	5.1	2.0	41.9
1930-31	7.7	26.5	5.0	2.4	41.6
1931-32	7.3	27.8	4.4	2.2	41.7
1932-33	7.6	25.4	4.6	2.3	39.9
1933-34	7.5	24.9	4.6	2.1	39.1
1934-35	7·8	24.8	4.6	2.1	39.3
1935-36	7.6	22.3	4.5	2.3	36.7
1936-37	7.9	26.8	4.6	1.9	41.2
1937-38	8.7	25.8	4.0	1.9	40.4
1938-39	8.0	22.9	4.1	1.8	36.8
1939-40	8.9	24.6	4.5	2.0	40.0
1940-41	8.1	21.0	4.6	2.3	36.0
1941-42	8.2	24.3	4.0	2.2	38.7
1942-43	9.0	23.0	4.2	3.0	39.2
1943-44	7.8	29.1	4.6	2.6	44.1
1944-45	8.5	25.5	4.3	2.4	40.7
Maximum	9.0	29.1	5.6	3.0	..
Mode	7.7	25.0	4.7	2.2	..
Minimum	5.7	21.0	3.6	1.8	..

Aggregate Maximum	..	45.0
Aggregate Mode	..	40.0
Aggregate Minimum	..	36.0

Note—The figures for the period 1930-1945 are more complete than those for the earlier years and are therefore not strictly comparable.

Source : (Agricultural Statistics of India)

180. The I.C.A.R. Memorandum estimates that 30% of the total production of foodgrains is brought to the market. On this basis, the maximum, modal and minimum distributable surplus would be 13.5 million tons, 12 million tons and 10.4 million tons respectively.

181. The difference between the maximum and the mode is thus 1.5 million tons; while that between the minimum and the mode is 1.6 million tons. The figure of 1.5 millions may be taken to represent the amount that may have to be taken off from the market by the State in bumper years, while 1.6 millions may be taken as an estimate of the deficit that may have to be put on the market in years of short supply. On this basis, the reserve which must serve both purposes will have to be 1.6 million tons. It will be seen that this represents about 4% of the modal production.

182. Another approach to the problem is to estimate reserve stocks on some appropriate proportion of the total distributable surplus marketed in bumper years, this being a rough indication of the largest quantity that the State may be called upon to deal with. The replies to our questionnaire indicate that there is a general concensus of opinion that buffer stocks should be between 3 to 4 months stocks, *i.e.* 25 to 33% of the annual distributable surplus, though a few replies have suggested even higher proportions. On the basis of 25 per cent of the annual distributable surplus in the year of maximum production, the reserve stocks may be put at 3.4 million tons.

183. The estimates of the stocks necessary as an emergency reserve against famine may also afford some guidance. The Foodgrains Policy Committee have recommended the setting apart of 0.5 million tons of grain as a Central Foodgrains Reserve. The Famine Inquiry Commission also state that they do not think that a reserve of this size would be execessive. This reserve however is intended only to bridge the period required for obtaining additional supplies of food from abroad. The reserve stocks necessary for maintaining prices will naturally have to be larger in size.

184. The following estimates emerge from the basis, which we have examined :—

Basis.	*Estimate of reserve stocks (in million tons).*
(*i*) Difference between mode and maximum/ minimum marketable surplus.	1.60
(*ii*) Replies to questionnaire (proportion of normal stocks).	3.40

(*iii*) Emergency Famine Reserve (Foodgrains Policy Committee and Famine Inquiry Commission). 0.50

We have considered the above estimates, but are not agreed amongst ourselves as to the appropriate size of the reserve. Some of us are of opinion that the reserve may have to be as large as 3 million tons while others hold the view that a reserve of 1½ million tons will suffice. We are all agreed, however, that a reserve of 1.5 million tons is the irreducible minimum and it is on this figure that we base our subsequent calculations.

185. We wish to make it clear that we consider the figure of 1½ million tons as the irreducible minimum for a national foodgrains reserve. We are aware that the Food and Agricultural Organization of the United Nations have under consideration at present a proposal for setting up a World Food Board and that one of its objectives is to establish a world food reserve adequate for any emergency which might arise through failure of crops in any part of the world. We welcome this proposal and hope that the Board, when established, would pay special attention to the requirements of backward and undeveloped countries. We are of opinion that a part of the reseve held by the Board should be located in India in consideration of her position in South-east Asia. The reserve held in India by the Board will however be quite distinct from the minimum national reserve of 1½ million tons, which we have recommended.

Location of reserve stock.

186. The reserve stocks should be located at strategic points so that they can be immediately utilised to influence the market whenever the need arises. This implies that sizeable quantities will have to be located at important centres, both in the surplus and deficit areas, so as to facilitate both procurement and supply operations. They may also be conveniently located at the ports of entry, since the reserve will consist partly of imports. Since Government will be purchasing all grain offered to them at the minimum price all over the country in order to make the price guarantee effective within easy reach of the cultivator, its stocks will accumulate at the selected small market centres. On the other hand, stocks will have to be maintained in the major consuming areas in order to implement the undertaking of the State to provide supplies at the maximum price. The problem of location of reserves in the context of their maximum effectiveness is thus a complicated one

and the centres of location should be carefully selected after taking into account all relevant considerations.

187. In view of the unequal distribution of stocks in relation to available storage accommodation at different centres, the storage arrangements will have to provide for an extra margin over and above the minimum reserve stocks contemplated. We are of opinion that this margin should be ½ million tons and that for accommodating a minimum reserve of 1½ million tons, storage godowns capable of accommodating a minimum of 2 million tons would be called for. Storage accommodation.

188. The type of storage accommodation required would depend largely upon the proportion in which the different grains are held in reserve, the suitability of bagged and bulk storage for each type of grain, and the local conditions in the selected centre. Where bulk storage is considered suitable, the respective advantages of the *Khatti* type of storage familiar in the U. P. and the elevator type of storage known in the west have to be examined. In a small centre separated from the mandies where the producer has to bring the grain to and move it from the depot in a bagged condition, the elevator may prove uneconomical. On the other hand, in important port centres where the turnover is large, the elevator type of storage may be found convenient.

189. We wish to draw attention in this connection to the unsatisfactory position regarding grain storage in general in the country. The State should construct the storage depots required for its reseve stocks at its own cost. The reserves held by the State will however be only a small fraction of the total grain surpluses which come into the market. The storage available for the normal commercial transactions in the market has been shown to be unsatisfactory by the experience during the war. The possibility of adopting suitable legislation for licensing grain dealers and requiring them to provide approved types of storage, and of establishing licensed warehouses under the auspices of the State as proposed in the draft bill circulated by the Reserve Bank of India deserves to be explored. Such measures would minimise the losses arising out of the deterioration of grain during storage, and provide negotiable warehouse receipts which will

enhance the value of the security offered for market finance.

190. The provision of adequate accommodation at Railway Stations and main transit points, also requires consideration. It is generally held that the covered accommodation provided by the railways on the goods platforms leaves much to be desired and that good deal of damage is caused to the grain by exposure to weather, and by pilferage at points of despatch or transportation. We understand that in some foreign countries there is a statutory responsibility on the railways to provide adequate sheltered accommodation for goods in transit and the feasibility of taking similar action in India needs to be examined.

191. The various points connected with the problem of storage to which we have drawn attention require detailed investigation. We therefore recommend that the entire question should be examined by the appropriate departments in consultation with the commercial interests concerned.

Turnover of stocks.

192. Even with the best arrangements for storage, provision will have to be made for the regular turnover of the stocks so that they may not deteriorate unduly. The exact method and extent of turnover will naturally be determined by the peculiarities of each grain and its capacity to preserve its quality under local climatic conditions. The details of turnover should therefore be carefully worked out in the light of the physical and climatic factors involved.

Cost of implementing policy.

193. We now proceed to make certain tentative estimates of the costs of implementing the price policy for the four food grains, wheat, rice, jowar and bajra, on the basis of maintaining and turning over reserve stocks of the order of 1½ million tons, and of providing storage accommodation for 2 million tons.

(i) *Fixed capital.*

194. With regard to the fixed capital necessary for the cost of construction of godowns for accommodating reserve stocks, it may be mentioned that a good deal of storage accommodation has already been constructed by the Central, Provincial and State Governments in connection with their food distribution schemes and further construction is still in progress. The extent of godown accommodation available and under construction may be judged from the following figures given in the "Food Statistics of India", (Statement No. CVI).

Statement showing storage accommodation available and under construction in various Provinces and States (in '000 tons).

Province/State.	*Storage accommodation available, including both Government owned godowns and those leased from private persons.*		*Storage accommodation under construction.*
	Bulk.	*Bag.*	*Bag.*
PROVINCES.			
Assam	9	28	10
Bengal	..	954	315
Bihar	..	45	..
Bombay	160	743	93
C. P. & Berar	..	..	71
Madras	..	90	43
N. W. F. P.	..	27	..
Orissa	42	42	17
Punjab	90	..	100
Sind	..	91	56
U. P.	74	253	..
Total Provinces ..	375	2,273	705
CENTRALLY ADMINISTERED AREAS.			
Ajmer-Merwara	..	1	2
Baluchistan	..	2	..
Coorg.	1	1	..
Delhi	..	15	10
Total Centrally Administered Areas.	1	19	12
STATES.			
Baroda	..	10	..
Cochin	..	39	9
Hyderabad	..	199	..
Rampur	..	7	..
Travancore	53	85	23
C. I. States	16	6	..
Deccan States	8	15	..
Eastern States	..	..	12
Gujrat States	8	11	..

Kashmir	16	1	..
Khairpur	..	1	..
Rajputana	13	30	..
W. I. States	26	158	..
Total States ..	140	562	44
GRAND TOTAL ..	516	2,854	761

The information is not complete and we understand that the Central Food Department are engaged in collecting more detailed information regarding the storage accommodation now available. For the purpose of our estimates, the existing storage facilities may well be ignored, because they are inadequate to meet the present requirements of the trade itself and Government will in any case have to pay for utilising such private accommodation as may be available. In the circumstances we have thought it best to base our estimates on the basis of constructing entirely new godowns for the reserve stocks to be kept by Government.

195. It is necessary to first split up the required accommodation of 2.00 million tons according to the proportion in which bulk and bag storage respectively will have to be arranged for. On the basis of the proportion in which grains are at present stored in Government godowns, it appears that the proportion of grain under bulk storage to grain under bag storage is in the ratio of roughly 15 : 85. It is difficult to say whether the same ratio will persist in the future, but assuming that it does, 0.30 million tons of bulk storage, and 1.70 millions of bag storage, will have to be provided for.

196. The cost of constructing these godowns may now be estimated on the basis of the recommendations made by Dr. F. P. Coyne in his 'Principles of Cereal Storage'. For bulk storage he recommends the construction of godowns of the type built at Shamli in the U.P. by private enterprise in 1944, but with additional bottom spouts. These are expected to have a capacity of 1,000 maunds (=36.7 tons) and the cost of construction is put at Rs. 1/4/- per maund of storage space, *i.e.* Rs. 1,250/- per godown. Since the godowns are expected to be roughly 10 feet in height, the ground area will be of the order of 120 sq. ft. and the cost of site and levelling may be taken roughly at about Rs. 6 per godown. With regard to accommodation for bag storage, Dr. Coyne estimates the cost of construction of godowns for holding about 267 tons at between

Rs. 6,000 and Rs. 10,000. We have taken Rs. 8,000/- per godown as the average cost. The cost of site and levelling in respect of each of these godowns may be put at Rs. 110/- . Using these figures, the fixed capital required for construction of godowns may be estimated as follows :—

Cost of construction of godowns for holding reserve stocks

	Quantity of reserve stocks (Million tons).	Capacity per godown (tons)	No. of godowns required.	Cost of construction per godown (Rs).	Cost of construction of required No. of godowns (Rs crores).
Bulk storage	0.30	36.7	8,174	1,256	1.027
Bag storage	1.70	267.0	6,367	8,110	5.164

The total cost of construction of godowns will therefore be Rs. 1.027 plus 5.164=Rs. 6.191 crores, or about Rs. 6.2 crores.

197. The above figure of Rs. 6.2 crores represents only a tentative estimate of the fixed capital that may be necessary. In actual practice the amount required may be less because in many cases the State may not construct its own godowns but might otherwise subsidise such construction or obtain private godowns on lease on more favourable terms. On the other hand, it must be remembered that the figure of 1½ million tons of reserve stocks which we have taken for our calculations is in the opinion of some of us on the low side. Further, we understand that there is a difference of opinion amongst technical experts relating to the estimates of cost put forward by Dr. Coyne, and that they are considered by some experts to be under-estimates. The figure of Rs. 6.2 crores may therefore be taken as a very tentative estimate which may have to be considerably modified after detailed technical investigations are made.

198. The working capital necessary for the purchase of the reserve stocks will depend upon the stocks of each grain in the reserve and the prices of the different grains. We may assume for our purpose that the reserve stocks are split up into the different grains in the proportions of

(ii) Working capital.

the respective modal values of their production and that the prices in the cases of wheat, jowar and bajra are the present minimum prices fixed by the Government *viz.* Rs. 7-8-0, Rs. 5-4-0, Rs. 5-12-0 per maund respectively, and in the case of rice, for which no all-India minimum price has been fixed, Rs. 8-8-0 per maund, *i.e.* Re. 1-0-0 above the price for wheat. On this basis, the cost of reserve stocks will be as under :—

Cost of Reserve Stocks.

Crop.	Quantity of reserve stocks (million tons)	Cost per ton. Rs.	A.	P.	Value of reserve stocks. (Rs. crores)
Wheat	0.29	204	2	5	5.92
Rice	0.95	272	3	7	21.98
Jowar	0.18	142	14	5	2.57
Bajra	0.08	156	8	3	1.25
TOTAL	1.50				31.72

Thus the total cost of reserve stocks will be Rs. 31.72 crores, or in round figures, Rs. 32 crores.

199. In the initial years, the reserve stocks will have to be formed out of imported grain consisting of wheat and rice. If an average price of Rs. 8/- per maund is assumed for these imports and the entire quantity of reserve stocks are imported from abroad, the total cost will amount to a little above Rs. 32 crores. The estimate of Rs. 32 crores may, therefore, be taken as a reasonable estimate of the working capital required.

(iii) Operating costs.

200. The annual recurring cost of operating the programme may be taken to consist of the following items :— (*a*) interest on fixed capital, (*b*) interest on working capital, (*c*) depreciation and maintenance of godowns, (*d*) deterioration of reserve stocks, (*e*) cost of bags for bag storage and (*f*) expenses of Staff.

201. We feel that it should be possible to raise the fixed capital required at a rate of interest which would conform roughly to that on long-term Government Securities. During the last decade, this rate has varied between 3½% and 2½%. If we take 3% for our estimate, the annual charge on a fixed capital of Rs. 6.2 crores will be Rs. 18.57 lakhs.

202. The interest on working capital may be calculated on the assumption that it may be possible to raise the funds at the treasury bill rate. The treasury bill rate has varied between ½% to ¼%during the last three years. If ½% is taken for our estimate, the annual charge on a working capital of Rs. 32 crores will amount to Rs. 16.00 lakhs.

203. The depreciation charges on account of godowns maybecalculated at 4% of the cost on the assumption that a godown will last for about 25 years; and the maintenance charges at 1% of the cost of construction. The annual charge against these two items will thus be 5% on the cost of construction of godowns which we have estimated at Rs. 6.2 crores, *i.e.* Rs. 30.95 lakhs.

204. An average loss of between 2 and 3% may be expected on account of loss in weight and damage by damp, weevil attack and vermin, according to the Marketing Reports published by the Agricultural Marketing Advisor. If an allowance of 2½% on the total value of reserve stocks is made on this score, the annual charge against this item may be estimated at Rs. 80.00 lakhs.

205. The cost of bags for bag storage may be assumed to be Rs. -/8/- per bag of 2 maunds, which becomes unserviceable after one year. This is slightly below the current market price of gunny bags. On this basis, the total annual charge on account of 1.275 million tons of grain which we estimate may be stored in bags, will amount to Rs. 86.76 lakhs.

206. We expect that the programme will be worked through the Provincial and State authorities who will employ the normal trade channels for the purpose of purchase and sale operations. The rates of commission which are being paid in some of the Provinces to purchasing agents at present are as under :—

Province.	*Rates of Commission.*	*Percentage rate of Commission.*
Punjab.	9.9 pies per md.	0.52
Sind.	1¼ anna per md.	0.78
Bengal	—	1.00
Assam.	3 annas per md. for first 95,000 mds.	1.90
C.P.	1 anna per md.	0.63
Bombay.	6 As. per bag of 182 lbs.	1.70

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(Rates of Commission have been taken from the Report of the Foodgrains Policy Committee, pp. 57-60. Percentage rates have been worked out on the basis of a price of Rs. 10/- per maund which was roughly the price prevailing in 1943).

It would appear that 1% on the value of grain handled would be a fair remuneration for purchasing agents. Assuming that reserve stocks of the value of Rs. 32 crores are turned over once every year on an average, the total annual charge under this head may be estimated at Rs. 32 lakhs.

207. Since the programme is to be worked through normal trade channels on an agency basis, the only staff that is necessary is on account of the central enforcement machinery. The expenses on account of such staff may be estimated roughly at Rs. 3 lakhs.

208. The total annual operating cost of the programme will therefore be as under :—

Item.	*Annual Expenditure.* (Rs. lakhs)
(*i*) Interest on fixed capital.	18·57.
(*ii*) Interest on working capital.	16.00.
(*iii*) Depreciation and maintenance of godowns.	30.95.
(*iv*) Deterioration of buffer stocks.	80.00.
(*v*) Cost of bags for bag storage.	86·76.
(*vi*) Agency Commission.	32.00
(*vii*) Expenses for staff.	3.00.
TOTAL.	267.28.

The annual operating cost will thus be of the order of Rs. 2.67 crores.

Benefits of price policy.

209. The aggregate modal production of these crops is of the order of 40 million tons and the total valu about Rs. 870 crores (valued at Rs. 8/- per maund). With an annual operating cost of Rs. 2·67 crores, it is thus possible to introduce a reasonable degree of stability in the production of crops worth Rs. 870 crores. In view of the security that it will provide in the lives

of the large mass of people in the country whose fortunes are linked up with these crops, the cost is small.

210. We wish to make it clear that the estimates of cost which we have worked out are only tentative and relate to reserve stocks of only 1.5 million tons. In times of depression however, stocks of much greater magnitude may have to be purchased in order to make the minimum price effective and the cost of enforcement, may be considerably higher. In certain circumstances the enforcement programme may also involve losses to the State. It is however precisely against such contingencies that the cultivator needs protection, and we are strongly of opinion that the State should not then be deterred from enforcing its price policy by purely financial considerations.

CHAPTER VII.

Price-Policy for Commercial Crops.

Importance of commercial crops.

211. Although we give first priority to the fixation of the prices of food crops, we are not unmindful of the important position held by commercial crops in the agricultural economy of the country. It is true that the proportion of the total cultivated area devoted to commercial crops is small, but in particular regions they occupy a very important position, and fluctuations in their prices have a great effect on the economy of these regions. They constitute the basic raw materials for some of the major industries of the country, and their steady supply at fairly stable prices is of great significance to manufacturers, and to consumers of the processed products. They also include some of our chief articles of export, and any diminution in their production will ultimately react on our ability to pay for essential imports. A guarantee of remunerative prices also for commercial crops is therefore essential from the point of view of all the interests concerned.

Price policy.

212. The price policy for commercial crops should be based on the general principles which we have already recommended. This implies that pending detailed investigations into costs, fair prices for commercial crops should also be determined by a procedure which would ensure the maintenance of a parity between prices on the one hand and the costs of cultivation and the costs of living of the farmer on the other, the parity being determined by the relationship which prevailed in the selected base-period. The appropriate base-period would vary from crop to crop, since the price-cost relationship is not equally fair for all crops in a particular period of time. In the U.S.A., parity prices are calculated for a number of commercial crops including cotton, tobacco and groundnuts and different base-periods are adopted for each. The Agricultural Adjustment Act of 1933 laid down that the base-period for calculating parity prices for tobacco should be August 1919—July 1929, whereas for all other commodities the base-period laid down was August 1909—July 1914. Subsequently, the base-period for flue-cured tobacco has been shifted to August 1934—July 1939.

Survey of attempts at regulation.

213. The prices suggested by parity calculations should be suitably adjusted so as to fit in with the general

policy of the State in regard to domestic industry and foreign trade. The methods of implementation of price-policy will also have to take into account the trade practices peculiar to each crop. We therefore consider it a fruitful approach to study previous attempts at the regulation of the prices of commercial crops in this country, and to examine to what extent the existing schemes are capable of improvement in the light of past experience. For this purpose, we review the schemes of regulation in respect of jute, cotton and sugarcane, all of which have been subject to price-fixation for some time.

(i) *Jute*

214. To take jute first, even as early as 1932-33, the Government of Bengal had attempted to persuade the cultivators by propaganda to voluntarily restrict the acreage under jute in order to meet the situation created by the depression. This voluntary campaign was not however much of a success, as may be seen from the following table given by Dr. Burns in his 'Technological, Possibilities of Agricultural Development in India', (p. 38):

Season.	*Extent of voluntary reduction advised by Government.*	*Acreage sown in Bengal.* ('000 acres)
1934-35.	nil.	2,348.
1935-36.	5/16th of acreage in 1934-35.	1,918.
1936-37.	1/3rd of acreage in 1934-35.	2,251.
1937-38.	3/16th of acreage in 1934-35.	2,209.
1938-39.	Same as in 1937-38.	2,522.
1939-40.	2/16th of acreage in 1937-38.	2,550.

The cultivators generally were inclined to sow more than the acreage advised by Government.

215. With the outbreak of the war, the trade in jute products with France, Germany, Belgium, Italy and other European countries practically ceased, and this meant a loss of about 56% of the pre-war export market for these commodities. On the other hand, in 1940, an exceptionally large crop of 13.2 million bales was harvested because cultivators grew as much as possible in the expectation that licensing legislation would be passed in the following year and that the licences would be based on the acreage sown in 1940. As a result, a slump in prices was threatened. For some time, the Government of Bengal tried to support the market by open market purchases, but later abandoned their plan when the Indian Jute

Mills Association agreed to a scale of minimum buying prices. In December, 1940, a conference was convened by the Government of India to devise ways and means for avoiding a fall in jute prices. At this conference, the Association agreed to recommend to its members the adoption of a buying programme upto specified quantities according to a fixed time-table, and any deficiencies in their purchases were to be made good by corresponding purchases by the Government of Bengal. In actual fact, though the purchases made under the programme fell short of the stipulated quantities, no further action was found necessary as the announcement itself acted as a steadying influence on the market and the heavy buying by middlemen and dealers supported the prices. The mills who were first hesitant about the buying programme found that they had made a profit as they had purchased their stocks at a price which turned out to be low in the light of subsequent developments.

216. These were however only temporary expedients and it was recognised that more drastic action was required to restore the balance between demand and supply. In 1940 therefore, the Jute Regulation Act was enacted in Bengal and it was followed by the Bengal Raw Jute Taxation Act of 1941. Under the latter Act a small cess was placed on jute equivalent to two annas on every maund of raw jute purchased by a mill or sent outside Bengal. The proceeds of this cess paid for the jute regulation staff who were charged with the duty of issuing licences for the cultivation of jute and of seeing that the acreage sown did not exceed the maximum acreage permitted under the licence. The 'standard acreage' under jute was declared to be 5,399,285 acres. On the basis of an estimate of probable world demand, maximum acreage was to be fixed in advance of each season by the Government and a flat proportionate reduction was to be applied to each individual grower's acreage. The following table compares the acreages licensed with those actually sown :—

Season.	*Bengal* *Acreage licensed.* (000 *acres*)	*Acreage sown.* (000 *acres*)
1941-42	1,634	1,533
1942-43	3,190	2,704
1943-44	2,559	2,146
1944-45	2,563	1,694
1945-46	2,547	2,018

(*Source*: Indian Central Jute Committee).

The actual acreage sown has generally been below the licensed acreage, as price factors have been relatively more favourable to rice.

217. As a result of the increased demand for jute manufactures on the part of the U.K. and the U.S.A., coupled with the regulation of acreage, the prices of raw jute have shown a steady increase since the inception of the scheme as may be seen from the following table :

Harvest prices per maund of raw jute :

	Rs.	As.	Ps.
1940-41	5	6	4
1941-42	7	2	8
1942-43	10	10	0
1943-44	11	14	0
1944-45	14	15	1

(*Sources* : I.C.J.C. for 1940-41 to 1943-44. The figure for 1944-45 has been worked out from harvest prices given in the Indian Trade Jounral),

218. Maximum and minimum prices of raw jute were ixed by the Government of India from time to time, the last notified prices ranging between Rs. 114/- per bale (Rs. 23-7-3 per maund) minimum and Rs. 125/- per bale (Rs. 25-11-5 per maund) maximum for Dundee first and Rs. 72-15-0 per bale (Rs. 15-0-4 per maund) minimum and Rs. 82-10-0 per bale (Rs. 16-15-9 per maund) maximum for white Jat Middles. Maximum prices of jute goods were also fixed at appropriate levels. The problem during the war, broadly speaking, was regarded as that of preventing prices from going above the maximum levels. Complaints were voiced that maximum prices were not always effective in respect of contracts entered into by foreign buyers who in the absence of price control in their own countries could afford to offer higher prices. A measure of control over such developments was however exercised by export allocations on a pre-war basis, first by the Combined Raw Material Board, and subsequently by the Government of India. Recently, the controls over the internal and export prices of jute have been withdrawn and at present, only quantitative control of export remains coupled with an enhanced export duty.

219. We hope that the jute industry is alive to its post-war problems, and that steps are being taken to

plan the output of raw jute. The jute industry did not feature amongst the industries selected for enquiry by the Panels set up by the Planning and Development Department of the Government of India, but the Indian Central Jute Committee has recommended a target of 10 million bales per annum in the immediate post-war period.

(ii) Cotton. 220. With regard to cotton, the declaration of war had at first a bullish effect on the cotton market and upto 1941-42 the acreage increased in spite of the nervous feeling caused by the loss of some European markets. The average price obtained for cotton in the first two years of the war showed an increase as compared with 1937-38 and 1938-39. The mill consumption of Indian cotton also showed an upward trend. The position deteriorated however in 1941-42 when the Far Eastern markets were lost as a result of the entry of Japan into the war. The cotton crop for 1941-42 was unusually large, being estimated at 6.13 million bales as compared with 6.08 million bales in 1940-41 and 4.91 million bales in 1939-40. To meet the situation the Indian Central Cotton Committee appealed to all Provincial Governments and States to reduce the acreage under short staple cotton by at least half.

221. During 1942-43, the position of cotton underwent a change for the better. The 'Grow More Food' campaign was meeting with an increasing measure of success, and the area under cotton was reduced by 22 per cent and the yield of cotton was 26 per cent less than the corresponding figure for the preceding year. The domestic mill industry also was expanding as a result of the wartime demand for piece-goods. These favourable influences gradually raised the price of cotton. The quotation for the Indian Cotton Contract (Jarilla) rose from Rs. 318 on 31st of August, 1942, to Rs. 637 on the 12th of March, 1943.

222. It was against this background that the Cotton Control Policy of the Government was evolved. The Government aimed at maintaining the price of cotton within stated floors and ceilings for different varieties. By the Cotton (Forward Contracts Current and Options Prohibition) Order, the Cotton (Forward Contracts in Current Crops Prohibition) Order, and the amendments to these orders, forward trading in cotton was confined to delivery contracts and on May 21, 1943, the Government announced the rates at which contracts remaining open were to be liquidated. For the Indian Cotton

Contracts in the Bombay Market, the rate at which the contracts were to be liquidated was fixed at Rs. 568/- for July delivery, but Government made it known that the fair price for the same quality would be Rs. 550/- and advised the mills not to pay more than that price. Fair prices for other qualities were also indicated, ranging form Rs. 315/- per candy for Bengals to Rs. 760/- for Combodia and Punjab American 289 F. As these regulations led to satisfactory results, in October, 1943, the Government of India excluded the Indian Cotton Contract from the Cotton (Forward Contracts and Options Prohibition) Order, 1943, and permitted the re-opening of trading in cotton futures in the market of the East India Cotton Association, Bombay.

223. The 'ceiling and floor prices' have been modified from time to time, and for the 1945-46 season stood at Rs. 530/- and Rs. 350/- respectively, per candy for Jarilla Cotton. The floor prices were fixed at a level designed to induce the cultivator to reduce the area under cotton in favour of food crops. In response to representations that this floor was unremunerative to the growers, the floor has recently been raised to Rs. 430/-.

224. It may be noted that Government have undertaken to buy cotton whenever prices showed a tendency to fall below the fixed minimum prices. During March-April, 1944, cotton prices declined precipitately up-country, particularly in the Broach district. Although the Indian Cotton contract in the Bombay Futures Market had not reached the floor level, Government intervened immediately in the market in Broach district, and purchased cotton on their own account. Later in April, when the Indian Cotton control touched Rs. 418/- May delivery, Government purchased Jarilla $\frac{3}{4}$" staple in Bombay and in up-country centres on the basis of Rs. 410 per candy ex-godown Bombay, American seed styles in Sind and Punjab and Hubli-Jayawant in the Compta District. In June, 1944, when the I.C.C. July delivery fell to Rs. 400/-, Government purchased all varieties of cotton tenderable against the contract at rates based on the tendering differences fixed by the East India Cotton Association for May delivery.

225. Owing to variations in outturn of lint from kapas, and variation in the quality of that lint, it was not found possible to purchase kapas (seed cotton). Only full-pressed bales were purchased. The purchases were carried out through 18 agents in Bombay and 21 agents in Karachi, subject to adjudication on the quality

by *ad hoc* committees in both centres. Government until the end of 1945 sold only such varieties as were in short supply. In December, 1944, Broach Cotton was in short supply and Government began selling their holdings of Broach Cotton to the mills and these sales continued during January and February, 1945. Towards the end of 1945, the reduction in cotton production began to affect supply to the mills and Government defined their selling policy, as follows :—

(*i*) Sales were to be made only in a manner which was compatible with the Government's price policy, and

(*ii*) sales were to be made as opportunity occured, to liquidate the Government's stocks of raw cotton.

In other words, Government would always be willing to meet a demand but would not force cotton on an unwilling market.

226. The measures generally taken to reduce the acreage under short-staple cotton consisted of subsidies to cultivators for diverting land from short-staple cotton to food crops, and the curtailment of irrigation facilities for cotton. In some Provinces like Madras, cultivators were required to plant a certain number of rows of food crops for a given number of rows of cotton. In Bombay, Government laid down a maximum proportionate limit to the acreage under cotton. There was no statutory regulation of acreage for cotton, as for Jute in Bengal, but the I.C.C.C. recommended an all-India target acreage of 16.2 million acres for 1945-46, and 14.4 million acres for 1946-47.

227. Besides price-regulation and reduction of acreage, Government also resorted to regulation of exports of both raw cotton and cotton cloth by allotting quotas. During the 1945-46 season, an overall limit of 800,000 bales was set to exports of raw cotton, and when in May, 1946, this figure was reached, further exports were prohibited. Recently, the export of cotton stapling 11/16" and over was prohibited, and a limit of 200,000 bales was set to exports during the first four months of the 1946-47 season, apart from the export of 3 lakhs bales to Japan.

228. The post-war plan for the cotton industry recommended by the Cotton Textiles Panel set up by the Planning and Development Department of the Government of India envisages the expansion of the current

mill production of 4,800 million yards per annum to 6,500 million yards per annum in the future, *i.e.* an increase of about 34%. This will call for a corresponding increase in raw cotton production.

(iii) Sugar.

229 With respect to sugarcane, the Sugarcane Act was passed by the Central Government in 1934, empowering local Governments to prescribe minimum prices for cane intended for use in sugar factories and to control the activities of various intermediaries so that a substantial portion of the price paid by the factories may reach the grower. The U.P. and Bihar Governments utilized these powers and from 1934-35 to 1936-37, cane prices in these provinces were linked to sugar prices by a sliding-scale system, the percentage share of the cultivator in the price of sugar decreasing with increase in the value of the latter. In March, 1937, there was a bumper crop and consequently sugar prices declined and it became uneconomic for the factories to crush cane at the prescribed minimum prices. To tide over the situation, the sliding scale system was abandoned, and the rules were relaxed in favour of factories which bought their cane from out-stations. For the 1937-38 season, non-varying minimum prices of 5¼ As. per maund for cane delivered at factory gates and 5 As. for cane delivered at out-stations were fixed. During the next year, a schedule of minimum prices varying inversely with the distance of the source of supply from the factory was prescribed.

230. In 1938, the U.P. and Bihar Governments assumed more effective control over the industry through their Sugar Factories (Control) Acts. These included provisions for the following :—

(*i*) Prohibition of the erection of new sugar factories or of the extension of existing factories except by licence;
(*ii*) establishment of a Sugar Control Board;
(*iii*) reservation of cane areas;
(*iv*) fixation of cane prices;
(*v*) regulation of output of factories; and
(*vi*) imposition of a cess on sugarcane.

231. The provision regarding licensing of new factories and extension of existing ones also provided for compulsory membership of the Indian Sugar Syndicate. The Syndicate was originally formed in 1936-37 when sugar prices were falling to uneconomic levels and it had helped to stabilise prices. It was now recognised

as the sole organisation for the sale of all sugar produced in the two Provinces and initially was given a free hand in the marketing of sugar and in the fixation of sugar prices. The provisions regarding licensing also included a clause fixing the quantity of sugar that could be manufactured by the factory during the period of the licence, which covered one crushing season.

232. A Joint Sugar Control Board was set up to advise the Governments regarding the administration of the Acts. The provisions regarding the regulation of cane supplied to factories were administered by Cane Commissioners who were authorised to reserve areas for individual factories. Purchase of cane from a factory's reserve area by another factory was made punishable under the Acts. Cane Cooperative Societies were also organised to supervise the orderly marketing of cane and by 1938-39, the cane supplied by these Societies in the U.P. accounted for nearly half the total quantity crushed by the factories in the Province.

233. The rules made under the Sugar Factories (Control) Act, 1938 by the U.P. and Bihar Governments required the factories to accept all the quantity of cane offered up to the sanctioned crushing limit. A limit was also placed on the amount which each individual producer could require a factory to accept, by stipulating that cane growers and Cane-Growers' Cooperative Societies in a reserved area were entitled to offer cane during a given season only up to the quantity produced on one-third of the land suitable for sugarcane cultivation out of their holdings.

234. In spite of these new powers, the 1938-39 season led to other complications. The crop was very poor, and the prices of both gur and sugar rose. The minimum prices of cane for the season had been fixed on the assumption that sugar prices would be about Rs. 9 per maund. When sugar prices touched Rs. 10/4/-, cane prices remained out of parity and it became more remunerative to turn to gur-making. While a maximum limit was placed by the rules made under the Act of 1938 to the quantities of cane which the cultivator could offer for sale, there was no rule requiring him to offer cane up to a minimum quantity and he was free to convert as much of the cane into gur as he chose. The cane prices had then to be increased by 1 to 1½ As. per maund. This experience led in 1939-40 to a revival of the sliding scale

system, the scale now being more favourable to the cultivator when the prices rose. The result was that the cane was diverted from gur-making to the factories, and as they were not able to absorb the increased supply, the minimum prices had to be reduced.

235. Important amendments in the legislation relating to sugarcane in the U.P. and Bihar were made by the 1940 Amending Act. This Act constituted a Sugar Commission which was to be the final authority on all matters connected with the production, sale and prices of sugar, subject of course to the final authority of Government. The Act also provided for a deferred price for cane when the sugar price rose above the basic level.

236. The next year revealed a considerable increase in the area planted with cane, an as it was anticipated that factories might be swamped with cane unless sale to them was made less profitable, the sliding scale system was abandoned for a second time. A fixed non-varying minimum price of cane was fixed, although the price of sugar was raised to Rs. 9-12-0 per maund. About the same time owing to the serious difficulties which the Indian Sugar Syndicate encountered in the disposal of the sugar produced by the U.P. and Bihar Sugar Factories, the two Provincial Governments had to extend control over the internal working of the syndicate.

237. Since 1942, the situation has been dominated by the sugar price control instituted by the Sugar Controller for India, who exercises an overall control on the system outlined above. There is no change in the method of enforcement of cane prices, but the prices of manufactured sugar and the movement of sugar are controlled on an all-India basis. The salient feature of the present system is the fixation of a uniform ex-factory price for sugar of a specified quality. All factories situated in high cost areas are allowed special concessions, such as the benefit of freight advantage in the price of sugar and subsidies on the prices of cane. The Indian Central Sugar Committee state in reply to our questionnaire that the freight advantage works out to Rs. 1/8/- per maund in respect of mills in the N.W.F.P. and Rs. -/12/- per maund in respect of mills in Bengal. The system has worked well on the whole, but complaints have been voiced on some occasions that sugar prices were fixed at such levels that the corresponding prices for cane were not sufficiently attractive to the cultivator in comparison with the prices of food crops. It is noteworthy

that recently Government have also fixed gur prices and have notified a whole-sale price of Rs. 10/8/- per maund.

238. The Post-War plan for the Sugar Industry, recommended by the Sugar, Alcohol and Food Yeast Panel set up by the Planning Department of the Government of India contemplates a target production of 16 lakh tons per annum as against the average annual production of 12 lakh tons during the period 1939-40 to 1944-45. This would call for a corresponding increase in the output of sugarcane.

Lessons of survey.

239. This survey of the attempts made in the past to support the prices of commercial crops indicates the factors which need to be taken into account and the directions in which modifications may be called for, while applying the general principles of price policy recommended by us to individual commercial crops.

(6) Price fixation.

240. The target of production or acreage should be one of the important factors to be considered in the fixation of prices. It should be fixed at a level which will meet the demand for domestic consumption and exports. This will depend on factors such as the capacity of the manufacturing industry, the demand for the final products at home and abroad, and the carry-over from the previous years. Exports will have to be planned with reference to the prices obtainable for them and the need for earning foreign exchange to pay for essential imports. In planning the distribution of the production amongst the domestic industry and the export market, the general policy should be to export manufactured and semi-manufactured goods in preference to raw materials. These considerations have already been taken into account to some extent in the course of the past regulation of prices of commercial crops. Sugarcane prices, for instance, have been so fixed as to induce the growers to sell sufficient cane to the sugar factories to enable them to maintain a specific output. In the case of jute and cotton, a reduction of the existing production appears to have been aimed at rather than any specific target of production. We recommend that in future, specific targets of acreage should be decided after taking into account the quantities required for domestic industry and for export. Price-policy should be oriented to secure the desired trends in production and if possible approximately to attain the targets.

241. In addition to the targets of production in respect of each individual crop, regard must also be had to the acreage under commercial crops in the aggregate. Food and commercial crops are competitive to some extent and prices have to be so fixed as will bring about an appropriate distribution of the cultivated area between these two major categories of crops. In the context of the present difficult food situation, this implies that the prices of commercial crops should not be so high as to encourage any diversion of land away from food crops. This consideration was very much to the fore in the decisions of Government during the war regarding the relative prices of commercial crops and food crops. Jute and cotton interests have always complained that the prices of raw jute and raw cotton have been fixed at such low levels that diversion of acreage to food crops was inevitable. It has been pointed out that the actual acreage sown to jute in Bengal has been consistently below the licensed acreage because the price factor has been favourable to paddy. A recent enquiry into the relative costs of production of jute and paddy carried out by the Economic Research Section of the Indian Central Jute Committee also supports this view. While the food emergency necessitates all possible measures for augmenting food supply in the short period, it has to be realised that the area under commercial crops has already undergone considerable reduction, and any further reduction may have prejudicial effects on our domestic industry and foreign trade. We recommend therefore that as a long term policy, food production should be expanded by bringing new areas under cultivation and taking measures to increase the yield per acre, rather than by diversion of acreage under commercial crops, and that the relative prices of food crops and commercial crops should be fixed at such levels that they will evoke the desired targets of production.

242. Another important factor which needs to be taken into account is the relationship between the prices of the primary raw materials and those of the finished products manufactured therefrom. In some cases, particularly if the final products are sold mainly in the internal market and enjoy a certain degree of protection against imported goods, the prices of raw materials can be fixed first and those of the manufactured products adjusted accordingly. This is also possible in the case of products intended for an export market if the country enjoys a monopoly in such products, although even then limits are set by the competition offered by substitutes. It is not

however possible to follow this procedure, if the manufactured products have to face a competitive market. In such cases the prices of the raw materials will have to be fixed on the basis of the market prices of the manufactured products. The prices of commercial crops and those of the products manufactured therefrom are thus connected in a two-way relationship, and prices can be fixed with reference to either end according to the degree of competition which the manufactured product has to face. The procedure of first fixing the prices of raw materials and then adjusting the prices of manufactured products in accordance therewith has been applied in the case of sugarcane in the past. In the case of cotton, the prices of cloth have been fixed on the basis of what the market will bear and the prices of raw cotton have been later adjusted to them. In the case of jute, the steady upward trend of demand during the war and the monoply position which India holds in this crop have encouraged a tendency to first fix the prices of manufactured goods and then adjust the prices of raw jute accordingly. In fact, the problem of raw jute prices has been viewed mainly as one of securing for the cultivator a reasonable share in the prices of the manufactured products exported abroad. Each crop calls for special treatment in the light of its peculiar circumstances and we recommend that these may be given due consideration in the fixation of prices. We wish to emphasise however, that care should be taken to see that prices are not kept at unduly low levels for any reason.

(ii) Price enforcement.

243. The enforcement of price policy also will call for measures appropriate to the case of each crop. Such factors as the degree of perishability, the nature of the semi-manufactured product, the financing of the trade and the type of marketing organisation need to be examined carefully before methods of enforcement are decided upon.

244. In the case of perishable crops which call for immediate sale, *statutory* minimum prices enforced by Government supervision will alone be effective. This will mean that it will be an offence to pay the grower a price which is lower than the price fixed. Sugarcane prices are regulated in this way in the U.P. and Bihar. The prices fixed are enforced through an official machinery headed by the Cane Commissioner, and orderly marketing is ensured through the Sugarcane Growers' Cooperative Societies. If statutory minimum prices are fixed for the raw product, the manufacturer will have to be allowed

an appropriate price for the finished product. Since it would be unfair to saddle the manufacturer with the responsibility of taking over all the quantity offered to him at the minimum price, it would be necessary to limit the quantity of raw produce which the manufacturer is obliged to buy. In the U.P. and Bihar, the prices of sugar also are regulated in addition to the prices of cane and an upper limit is set to the quantity of cane which each grower or Cooperative Society can sell to a particular factory. The principle of regulation by statutory prices is capable of application at the primary stage, only if a suitable official machinery is set up to check abuses. Since the maintenance of a large inspecting staff is apt to be resented, we recommend that this method should be sparingly used.

245. Another method of implementing price-policy is to undertake purchase and sale operations under the auspicies of the State. In recent years, prices of baled cotton were maintained between specified 'floors' and 'ceilings' by undertaking operations of this type. In other words, the method which we have recommended for food crops was applied to cotton, not at the primary stage, but at an intermediate, processed stage. Such operations however must be accompanied by measures which would ensure that the cultivators, in their turn, are paid prices which are in conformity with those obtained by the sellers of the processed products. The purchase and sale operations carried out by Government in respect of cotton have so far been confined mainly to Bombay and Karachi, except for a few occasions when purchases were also made at certain up-country centres. The price policy of the Government has thus been effective only at a few centres and prices in other areas have remained out of alignment. Since the buying programme was restricted to purchases of the processed product, complaints have also been voiced that it benefited the intermediaries and speculators instead of the cultivators. We recommend therefore that when purchase and sale operations are undertaken, they should be carried out at all the important market centres and adequate measures should be taken to ensure that their benefits reach down to the actual cultivator.

246. Instead of the State intervening directly in the market, it may be possible to induce the trade to create a marketing organisation of its own which would purchase the raw produce from the cultivators, hold stocks of the commodities at some appropriate stage in the process of marketing and sell from stocks in the market, so as to maintain prices within the range fixed by the State. The

State could then supervise the activities of such a body and compensate it for any losses that it may suffer on account of the price policy of the State. This method has obvious possibilities, and we commend it for further consideration.

247. The processing industries may also be required by legislation to hold stocks at a particular level in the interest of the price policy. Even if the stocks be higher than what they are likely to hold on their own initiative, they should have no objection to falling in with such legislation, provided they are compensated for their extra cost in holding these stocks. This will however call for the appraisal of the 'normal' stocks held by industry which may lead to difficulties. The implications of this method should be examined further.

248. The price-policy needs to be supported in certain cases by methods of quantitative regulation. While the fixation of prices may succeed in attaining the targets of production, it may not by itself bring about the desired allocation of production between the home and foreign markets. Quantitative control would then be a valuable aid. Such controls have been widely used by Government during the war, and are still in operation. In the case of raw cotton, there is a definite policy of laying down export quotas in respect of specified varieties. In the case of sugar, steps have been taken on certain occasions to assure each factory of a regular supply of the raw material, *e. g.* by prohibiting the manufacture of gur in the reserved areas. Exports of cotton and jute manufactures and of sugar are controlled by means of licensing and quotas. We recommend that quantitative regulation of domestic industry and foreign trade should be continued in order to reinforce price-policy.

249. The regulation of acreage is also of great importance. The three crops reviewed by us have all been subject to some measure of crop regulation in the past. The control of acreage has been enforced in Bengal in the case of jute through a licensing system which limits the acreage under jute of each individual grower. There has been no such close regulation of acreage in the case of cotton but steps have been taken to generally discourage the cultivation of short-staple cotton, and the Indian Central Cotton Committee has been recommending acreage targets. In the case of sugarcane, although its acreage is not subject to overall regulation, the reservation of cane areas does in fact limit the acreage from which a given sugar factory

can draw its supplies, since though it can still buy from non-reserved areas it cannot buy from the areas reserved for other factories. In view of this experience, we recommend that the regulation of acreage should be used as a reserve power when regulation of prices alone is not effective. Through regulation of acreage, supplies can be restricted or expanded at the source in accordance with the requirements of domestic industry and export.

Application of policy.

250. We recommend that the above principles of policy should be applied in the first instance to cotton, jute, and sugarcane and extended subsequently to other important commercial crops such as oilseeds and tobacco. The existing schemes of regulation should be oriented, as conditions permit, on the lines suggested by us and they may ultimately be administered by the same machinery which administers the schemes for food crops.

CHAPTER VIII

Price-Policy for Animal Husbandry Products.

Importance of animal husbandry products.

251. The production of animal husbandry products like milk, eggs and fish is relatively more deficient to the requirements of the population than agricultural products. It is estimated in the I. C. A. R. Memorandum that while cereals and pulses need to be increased by 10 and 20 per cent, respectively, the production of milk, eggs and fish, needs to be increased by 300% each, if a balanced diet is to be provided. If the necessary expansion in production is to be brought about, it is essential that animal husbandry should be established on a remunerative basis and that the prices of these products should be supported at a level which will induce the producers to expand their output.

252. We feel it would be convenient if we were to first survey the position in respect of particular products such as milk, fish and eggs, so that it may enable us to formulate general principles of price policy applicable to animal husbandry products as a whole. These products are protective foods and hence are of vital significance to the dietary of the population. They are also utilized to some extent in the processing industries and create problems in a way similar to commercial crops. Their distinctive characteristic, however, is their extreme perishability which profoundly influences the price-policy evolved for such products.

Milk.

253. To take milk first, it is generally accepted that milk production in India is not sufficient to meet the minimum nutritional requirements of the population. The annual net production of milk from cows, she-buffaloes and goats has been estimated in the Report on the Marketing of Milk (1941) of the Agricultural Marketing Department at 23 million tons. The consumption *per capita* varies from 18 oz. in Sind to as low as 1.8 oz and 1.3 oz. in the C.P. and Assam, respectively, whereas nutrition authorities generally consider 8 oz. as the minimum adult requirement for a balanced diet.

254. The low *per capita* consumption of milk is to be attributed not only to the low level of production but also to the high price at which milk is marketed. The price of milk at present is beyond the means of the ordinary consumer, the price in Calcutta and Bombay being actually

higher than that in England. The price is high however not because the producer makes an undue profit, but because with the small unit of production the costs of production are high. The spread between the producer's price and the consumer's price is also unduly large because of the high costs of transport and distribution and it is estimated that the producer gets only 67% of the price paid by the consumer. A large part of the milk produced has to be consumed locally due to the lack of sufficient facilities for transport. Since fermentation starts rapidly under Indian conditions and milk cannot be kept in a raw state for longer than 5 to 6 hours, only 27% of the milk produced is consumed in fluid form while the remainder has to be converted into milk products, mainly ghee.

255. The problem is two-fold. Firstly, it is necessary to take measures to increase production. The care of cattle including better breeding, better feeding and control of disease, will in the long run reduce the costs of production per unit and expand production. This may be best secured by the establishment of dairy farms under proper standards of management and hygenic control. The guarantee of an assured market for fluid milk at a price which will provide the producer a higher income than what he gets at present by converting his milk into ghee will be another and the most effective incentive to production. Secondly, steps must be taken to provide rapid and refrigerated transport from the areas of production to the centres of consumption, so as to reduce wastage and keep down the cost of transport, to make arrangements for processing where necessary and to reorganise the machinery of distribution.

256. The problems of milk and milk products call therefore for the setting up of two different types of machinery, one, for securing an increase in production and the other, for regulating transport, processing and distribution. The two organizations should work in close co-operation with each other so as to secure for the producer a remunerative price and make milk available to the consumer at a price within his means.

257. An illustration of the type of machinery which would be suitable for this purpose is provided by the scheme for the marketing of milk in Bombay City, which we understand is under consideration by the Government of Bombay at present. The scheme contemplates the setting up of two bodies, a dairy corporation for organizing increased production and a marketing board for arranging

for efficient procurement and distribution. The first body is to be a limited liability company, a majority of its shares being held by Government and the rest by the public. The dairy corporation is required to establish, as quickly as possible, farms capable of producing specified minimum quantities of milk per day. The entire quantity of milk produced by the corporation is to be taken over by the marketing board, which will be appointed by Government and financed mainly by grants-in-aid from Government, and partly by fees and funds levied in connection with licences, etc. The board is to be the only wholesale distributor of milk in Bombay. It will draw its supplies from the production of the dairy corporation, the creameries in the suburbs, and the dairy farms established by other bodies, and pay a remunerative price to the producers. Within the limits of Bombay city, the board will be empowered to set up processing centres where the milk obtained from different sources will be tested, and if necessary, put in cold-storage before distribution. Distribution in the city is to be handled by the board through its own retail shops or kiosks or by dealers licensed by the board. The board will encourage the organisation of producers into co-operative societies and set up in the producing centres machinery for manufacturing powdered milk, so as to cope with seasonal overproduction and difficulties of transport. The provisions relating to the determination of prices are not clearly stated in the Bombay scheme but they are presumably left for negotiation later between the marketing board and the producers.

258. The Bombay scheme thus incorporates the features of (*a*) monopoly distribution within a small area, (*b*) control over a substantial proportion of the total supplies, and (*c*) the establishment of facilities for processing surplus produce. We recommend that schemes on similar lines may be undertaken for all predominantly urban areas.

259. Even though measures are taken to increase production and to ensure efficient distribution, it is the opinion of experts that the price of milk will continue to remain at a level which will be beyond the means of low-income consumers. We recommend, therefore, that in view of the vital importance of milk as a protective food, the State should subsidize the sale of milk to the vulnerable classes of the population. The distribution of milk to children under two years of age and to expectant mothers at half the market-rates is already in force in

Bombay city and the scheme is operated through a system of milk ration cards which entitle the holder to a maximum of 8 oz. per day. It should be possible to operate similar schemes all over the country and extend the benefits to children of school-going age and to the sick. Apart from the beneficial effects that such schemes will have on the health of the people, the subsidisation of milk will create an assured demand for a part of the supply and exercise a stabilizing influence on the market.

Fish.

260. The total annual production of fish was estimated in the Report on the Marketing of Fish of the Agricultural Marketing Department (1941) at 659,000 tons, about one-third being fresh water fish and the remainder sea-fish. On a *per capita* basis this amounts to 3 to 4 lbs. per annum *i.e.* less than 0.2 oz. daily. On the other hand, according to nutrition experts, the desirable intake by fish-eaters who consume little milk or meat is 2 to 4 oz. daily. In most parts of the country there is no prejudice against fish as an article of diet and there is considerable room for increase in its production. The Fish Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries has estimated that fish production should be increased at least 10 to 11 times of its present figure.

261. At present the retail prices of fish are fairly high but even so the fishermen's share therein is hardly 40% in most cases. Since fish are a highly perishable commodity, the fishermen are unable to hold out for a higher price and hasten to get it off their hands as quickly as possible. As the I. C. A. R. Memorandum points out, the problem is not so much that of catching fish as of gutting them while in transit and conveying them as quickly as possible to ports where they can be kept in cold storage pending consumption. Even at consuming centres, chilled room facilities are practically confined only to Bombay and fish are not stored for more than 24 hours. In the circumstances, the fisherman has either to market the fish as dried fish, or accept the best terms he can get from the middleman. Moreover, the constant borrowings by fishermen from moneylenders and their obligations to the owners of boats and nets weaken their bargaining position and enable the middlemen to purchase the catches at prices much below the prevailing market rates. In some cases, as in Bombay, middlemen enter into annual contracts with fishermen to buy the catch at agreed prices irrespective of the fluctuations in market prices. In respect to their sales, the middlemen often form a ring and charge a price based on what the consumer can afford to pay.

Fish have been known to have been thrown back into the sea if the catch was too large and likely to lower prices and reduce the profits of the middlemen. Owing to these conditions, the position of fishermen is extremely precarious and they have little incentive to increase the catch.

262. The main difficulty in the case of fish is thus one of organization and it can be best solved by the organisation of Fishermens' Co-operative Societies. According to the Report on the Marketing of Fish of the Agricultural Marketing Adviser, there are in all about 200 Fishermen's Co-operative Societies in India. These societies finance their members, sometimes assist them in the sale of fish and only in very few cases, undertake the assemblage and distribution of the members' catches. They have not therefore been able to ameliorate the condition of fishermen to any significant extent. The societies in order to function effectively should supply boats and tackle and other accessories to members and should assist them in marketing their catches at more favourable rates. There are at present only six societies in South Canara and Malabar, one in Orissa, one in Karachi and two in Bengal which are carrying on work on improved lines. We therefore strongly endorse the recommendation of the Fish Sub-Committee that action should be taken to prepare a general plan for establishing Fishermens' Co-operative Societies throughout the country.

263. Pending the establishment of such societies, it may be necessary to fix at each centre the minimum price that should be paid to the fisherman and the maximum price that may be charged by the retailer. Fisherman's prices will have to be fixed for different types of fish on the basis of the retail prices in the nearby markets, after making due allowance for cost of transport, wastage, etc. With the adoption of modern methods of catching fish and with the development of refrigerated transport and better facilities for processing, it should be possible to add to the income of the fishermen and at the same time reduce the cost to the consumers.

Eggs.

264. The total net annual production of eggs in India, is estimated at 3328 crores in the Report on the Marketing of Eggs (1938) of the Agricultural Marketing Adviser. The *per capita* consumption varies from 21.6 eggs per annum in Travancore, where the production of eggs is largest, to less than one egg per annum in Rajputana and the Western India States, which are areas

of sparse production. For the entire population, the *per capita* consumption works at 8 eggs per annum but since a large section of the population are vegetarian, it may be about 27 eggs per annum, for the egg-eating section.

265. The retail price of eggs before the War varied between 6 and 9 annas per dozen in most urban centres, but it has now risen to Rs. 1-8-0 to Rs. 2-0-0 per dozen. The result is that eggs are practically unobtainable for the bulk of the population. But considering the cost of collection and the wastage involved in breakages and deterioration, the spread between the producer's and consumer's prices which averages about 44% for the whole of India in the case of hen eggs is not unduly large. Eggs do not keep for longer than a week to ten days and there are hardly any facilities for refrigerated storage. There exist a few commercial cold stores where small quantities of eggs may be stored for a few days, but these are confined to Karachi, Bombay, Hyderabad, Madras and Calcutta.

266. In the case of eggs again, the problem is mainly one of organization. The pivotal position in assembling and distribution is held by egg-collectors who go round the villages and buy up the eggs from the primary producers. It is reported that there is generally a keen competition between collectors operating in particular areas which operates in favour of a higher price for the producers. It is only when the egg-collectors do not collect the eggs at regular intervals that the producers suffer.

267. There are two ways in which improvements in organisation can be effected so as to assure a remunerative price to the producer. One method would be for Government to license the egg-collectors and require them, as a condition of the licence, to pay fair prices to the producers and charge fair prices from the consumers. A scheme on these lines is in operation in Bansda State (Gujerat), and has been described in the Report of the Agricultural Marketing Department on the Marketing of Eggs.* In this State, the sole right of collecting eggs for export is auctioned and assigned to only one party. The licensee has to purchase at a fixed price all the good eggs that the producers may have to sell, the price of purchase being announced at the time of the auction. The producers are free to sell eggs directly to individual consumers, but for trade purposes they can sell only to the licensee or his agent. The other method is to

establish co-operative egg production and marketing societies. Better laying birds may be supplied to these societies, so that the number of eggs produced may increase. The societies may also arrange to collect their eggs and send them to the nearest town for retail sale. In this case, it may not be necessary to fix the prices at which eggs may be bought and sold. We recommend that both these methods may be tried out, and adapted to local conditions.

Principles of price policy.

268. As a result of our survey, certain features appear to be common to animal husbandry products as a whole. Firstly, their production needs to be expanded to a considerable extent in order to meet the nutritional demands of the population. Secondly, the perishable nature of the produce and the lack of suitable facilities for transport result in the localisation of the markets and in wide variations in the prices in different areas. There is no such thing as an integrated all-India price or even an all-province price for these products. Thirdly, there is wide disparity between the prices received by the producer and the prices paid by the consumer. Finally, the prices at which the products can be made available to the consumer are normally beyond their means. Any proposals for improvement must provide a solution for these problems.

269. In this context, a price policy must concern itself with assuring a price which will provide an incentive to the producer to increase his production. At the same time every effort must be made to provide necessary facilities, improve the system of marketing and reduce the costs of production, transport and distribution in order to enable the produce to be sold over as wide a market at as low a price as possible. If in spite of this, certain classes of consumers find the price beyond their means, supplies should be made available to them on a subsidised basis. The implementation of these principles will call for improvement in the organization of the production and marketing of these products. The machinery for the fixation and enforcement of prices will have to be constituted on a local basis because of the wide differences in conditions in different areas.

270. The parity approach which we have recommended for the determination of prices in the case of food crops and commercial crops is not suitable for animal husbandry products. Since markets are extremely localised and wide disparities in price levels persist, it will be undesirable

to raise base-period prices by fixed percentages as it will magnify the disparities and cause considerable hardship to persons living in areas where the base-period prices themselves were unduly high. In the U.S.A., whenever the price of milk calculated on the basis of giving milk a purchasing power equivalent to its purchasing power during the base-period is considered to be inappropriate in the light of the prices of feeds, the available supplies of feeds, and other factors which affect the supply and demand for milk and its products, the Secretary of Agriculture is empowered to fix the price at a level which, under existing circumstances of costs, would ensure a sufficient quantity of pure and wholesale milk, and be in the public interest. The prices of such products have thus to be fixed on the basis of actual costs of production rather than on the basis of parity alone.

271. In India, some data relating to costs are available in the Reports of the Agricultural Marketing Department and in the publications of the Punjab Board of Economic Enquiry but the costs vary from tract to tract and the results of local enquiries cannot be considered to be of general application. The Fish Sub-Committee have come to the conclusion that "the available information with regard to production, distribution and marketing of various species of edible fish all over the country is quite inadequate for determining the cost of production and fixing equitable wholesale and retail prices" and the Milk Sub-Committee have suggested in their report that "a proper survey of the position should be made to ascertain the cost of production, handling, etc. of milk". We recommend, therefore, that early steps should be taken to organise enquiries into the costs of production of milk, fish, eggs and other important products of animal husbandry in the major centres of production and consumption and adequate grants should be given to Universities, Municipalities and other local bodies for the purpose. Until the results of such enquiries are available, prices should be determined *ad hoc* by independent local bodies, specially constituted for the purpose, in the light of a general appraisal of local conditions.

272. With respect to the enforcement of the prices fixed, the technique of buffer stocks and marginal purchase and sale operations cannot be employed in the case of these products, because of their rapid deterioration in storage. The only alternative will be to exercise some measure of centralised control over the distribution of the available supply. The nature of regulation would vary from area to area and from commodity to commo-

dity as circumstances may make it necessary. In some cases, it may be sufficient to merely license producers and distributors and issue instructions to them, while in others, the entire supply may have to be purchased by the State from the producer at a remunerative price and released to the consumer at a price within his means. The machinery of regulation should therefore be sufficiently elastic so as to adapt itself to the requirements of any given situation. It should be so constituted that it will be representative of the various interests concerned and yet will consider the problem from the point of general public interest.

Price policy in the U. K.

273. These principles of price policy have been in operation in the U.K. since 1931, when the Agricultural Marketing Act was adopted. In the beginning, the machinery of implementation consisted of organisations of producers, but in recent years there has been a trend towards the re-constitution of the machinery on a broader basis. The Agricultural Marketing Act enables the setting up of a marketing board, provided a majority of the producers of that product are in favour. When such a Board is set up, it is incumbent on all the producers of that product in the area concerned to comply with the regulations in force. Such Boards have accordingly been set up for the marketing of milk, bacon, pigs, potatoes and hops. The main powers which the Boards can acquire under the Act are as follows :—

(*i*) A Board may buy all the product over which it has jurisdiction, and may sell, grade, pack, store, adapt for sale, insure, advertise, and transport the commodity.

(*ii*) A Board may require the producers to sell any kind, variety, grade, or quality of the product only to or through the agency of the Board.

(*iii*) A Board may be empowered to buy and to sell or let for hire to producers anything required for the production, adaptation for sale, or sale of the product.

(*iv*) A Board may determine the price at, below or above which, the terms on which, and the persons to, or through the agency of whom, the product may be sold.

A Board may be equipped with all or only some of these powers, according to its requirements. Three different types of organisations have been set up under this Act

for different commodities. In some cases, the Board acts as a trading body which is the sole agent for the sale of the product handled; in some, it acts as a regulatory body merely issuing instructions regarding the methods and operations connected with the marketing of the articles; and in others, it acts both as a trading and a regulatory body*.

274. The experience of the working of these Boards has shown that while they have tried to improve the position of the producers by enabling them to attain higher prices than before and have introduced measures to improve the quality of the supply, they have not paid equal attention to stimulating the demand for these products and lowering the prices at which they are marketed. The Boards being composed of representatives of producers have thought it their primary duty to guard the interests of those whom they represent, although in practice they have had to negotiate with distributors' and producers' organisations and arrive at their decisions by collective bargaining. The Milk Marketing Board, for instance, has been criticised for having neglected the retailing aspects of its problems and for having fixed the retail prices of milk at a level at which many classes of people are unable to purchase their requirements. Since the Board has been subsidised by the Government through the grant of minimum guaranteed prices, it is argued that the control should be vested in the State rather than in the producers alone, so that there should be no conflict between the objectives of increased milk production and increased milk consumption, both of which are objectives of national policy.*

275. The experience of the Agricultural Marketing Boards in the few years prior to 1939 has demonstrated the difficulty of providing for the efficient organisation of marketing on the basis of producer representation alone. The Boards soon found themselves forced to negotiate with distributors and processors, whether the latter were organised on a parallel basis as in the case of bacon, or in a trade organisation as in the case of milk, or were included on the marketing board itself as in the case of potatoes. Government policy therefore moved gradually towards the establishment of independent organisations dealing with all the complex problems of marketing. Under the Bacon Industries Act of 1938, the power of price fixing and the control of policy for the

*Public Enterprise—Robson.

pig and bacon industry was vested in the Bacon Development Board consisting of five Government-appointed members, and four representatives each of the Pig and Bacon Marketing Boards. In the case of milk also, the Grigg Re-organisation Commission and the Cutforth Re-organisation Commission recommended the creation of an independent body which should have the final voice in determining prices; and a bill also was introduced in Parliament in 1937 for establishing a Milk Commission to supervise the industry, but it was subsequently withdrawn. In general, however, public opinion in England has come to the view that it is necessary to transfer the power of price fixing from producer marketing boards to independent commissions. It is recognised that the producer marketing boards have not in practice exercised their power to fix prices without previous negotiations with distributors and processors, but it is felt that even the interests of distributors and processors are not always identical with those of the community as a whole. The task of price fixing as well as that of deciding the general policy applicable to each product is of such vital importance that it needs to be vested in a commission completely independent of all sectional interests, who would look at the problem from the point of public benefit alone and fix prices which will be fair to all classes—producers, manufacturers, distributors and consumers.*

Price policy in India.

276. We recommend that similar steps may be taken in India as well to constitute marketing organisations for different animal husbandry products on a local basis. These bodies should consist of representatives of producers, processors, traders and consumers, and should function under the general direction of the State. They should concern themselves both with the problem of increasing production and with the problem of improving marketing and distribution through the establishment of cold storages, processing plants, and refrigerated transport. The State may subsidise particular classes of consumers, if it considers necessary, by requiring such organizations to release supplies to them at concessional rates, reimbursing them itself thereafter. The organisations should have attached to themselves impartial price-fixing boards which should take into account all interests concerned and determine fair prices.

277. These are the general lines on which a price policy for animal husbandry products should be evolved.

* 'A Tract on Agricultural Policy'—D.A.E. Harkness.

These will also apply to other types of perishable produce such as fruits and vegetables. The principal feature of such a policy is that it has to be evolved separately for different localities and for different products, in the light of local conditions. In the course of years, when facilities for cold storage and refrigerated transport have sufficiently developed, and a substantial increase in production has taken place, it may become possible to evolve an integrated price policy, first on a provincial and later on an all-India basis.

CHAPTER IX.

Administrative Machinery.

Necessity for special machinery.

278. The administration of the price policy including the determination of minimum and maximum prices and the enforcement of these prices by appropriate measures calls for the creation of a machinery specially adapted for the purpose. In a country of the size of India, with Provinces and States in different stages of economic development and fiscal stability, the formulation of price policy is bound to be a complicated affair. It will call for a carefully balanced administrative framework designed to ensure that the autonomy of the different political units is respected and the action taken by each of them is effectively co-ordinated. Moreover, it is important to associate public opinion with the administration of policy at appropriate stages so as to minimise the possibility of corruption and favouritism and secure popular support for the programme.

279. It is desirable that the jurisdiction of the machinery should extend over the whole country. Prices will have to be fixed for a large number of different commodities produced in different parts of the country and an appropriate differential shall have to be maintained as between different commodities and between different regions so that there may be brought about an inter-related price structure for the country as a whole. The fixation of prices of agricultural products in one region will not only influence the prices of similar products in other regions, but also influence the prices of manufactured products because of their effects on the costs of living and the costs of production. The enforcement of prices also will call for the purchase and sale of different types of produce at market centres all over the country. While Provinces may be classified as surplus or deficit Provinces with respect to particular crops, all Provinces are deficient in some crops and surplus in others. The Indian price-structure has under normal conditions been an integrated whole in spite of any pockets of rigidity that persist due to inadequate development of marketing and transport. Any administrative machinery that is created should therefore have its scope of operations co-extensive with the whole country, if the unity of the price-structure is to be maintained. While special arrangements may be necessary for dealing with individual homogeneous tracts within the country, we are of the opinion that these arrangements should function within the frame-work of a

machinery organised on an all-India basis and not independently of it. The interests of each region or Province or State vary from crop to crop and the largest measure of agreement on policy can be reached only through an All-India organisation, where the price and production policy relating to all crops in all areas can be discussed on a basis of give and take. As stated by the Foodgrains Policy Committee, 'it is not reasonable to enforce sacrifices on one Province without reasonable efforts being made to see that the fruit of such sacrifices goes as far as possible in relieving the suffering elsewhere'. An All-India organisation would be in the best position to uphold this principle and to secure the largest measure of agreement between the different provinces and states. If an area then is required to partially sacrifice its interests in the case of one crop, it may secure compensation in the case of another crop and it will have the satisfaction further that its sacrifice has been instrumental in producing benefits in a sister area. We recommend, therefore, that the administrative machinery for the formulation and execution of the price policy should be constituted on an All-India basis covering all the Provinces and States.

Constitutional difficulties.

280. The creation of an All-India machinery is beset with constitutional difficulties. Under the Government of India Act of 1935, 'agriculture', 'trade and commerce within the Province', and 'production, supply and distribution of goods' are subjects included within the Provincial Legislative List. The Central Legislature has no power to legislate in respect of these subjects except by the consent of two or more Provinces or in times when a grave emergency threatening the security of India has been proclaimed by the Governor-General.

Central control during war-time.

281. During war-time, the Government of India exercised the power to issue directives to the Provinces on matters falling under these subjects, but these directives were issued under Section 126 (A) of the Government of India Act which confers this power on the Central Government when a proclamation of emergency is in operation and the Governor-General has declared that the security of India is threatened by war. This power has ceased with the end of the emergency and the withdrawal of the proclamation. Even when the Government of India did possess the power to intervene and situations arose when such intervention became necessary, there have been instances where they have not felt justified in pressing their views to the length of using their emergency powers. The Central Government have always had a

feeling that 'in a constitution of a federal nature the constituent units, especially where a popular ministry is involved, must be allowed due scope in the exercise of the responsibility with which they are charged*'. The recent amendment to the Government of India Act makes it possible for the Central Government to continue to exercise some of their war-time powers even after the D.I.R. has been withdrawn, but it is unlikely that these powers will actually be exercised to any great extent.

Powers and responsibilities of the centre.

282. While the Central Government have no power to intervene in subjects which lie within the Provincial jurisdiction, they have accepted the responsibility for 'maintaining adequate conditions of living and high levels of employment' and for "immediately increasing the food resources and improving the diet of the people"** within the country, as a signatory to the Final Act of the United Nations Food and Agricultural Organisation. The recent statement on Agricultural and Food policy issued by the Government of India also says *inter alia* "Agriculture, and the supply and distribution of food are provincial subjects and on provinces will rest the first responsibility of making plans, in the light of local needs and capacity, and the final responsibility of carrying them. But it is necessary for the Central Government to take the initiative in co-ordinating the proposals and bringing them into the frame-work of a common plan for agriculture and food". The Central Government thus recognize their responsibility in regard to the overall food and agricultural situation in the country. As has been said by the Foodgrains Policy Committe 'hungry men do not discriminate and social unrest does not observe the provincial frontier lines. The Centre, all the Provinces and all the States have a common interest in seeing that the situation does not get out of hand'. This common interest needs to be organized through an appropriate machinery for consultation, decision and execution.

Division of powers in other countries.

283. This difficulty arising out of the conflicting powers and responsibilities of constitutent units is by no means unique to India and it was also experienced in other countries whose experience will provide valuable

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*Quoted from a statement by the Food Department to the Famine Enquiry Commission.

**Final Act of the United Nations Organisation of Food and Agriculture.

guidance to us. It does not ordinarily arise in countries with unitary constitutions, such as the United Kingdom and France. In the United Kingdom, an Act of Parliament holds supreme over all subordinate law-making authorities. In France also, under the Third Republic, laws passed by the Chamber of Deputies had over-riding authority all over the country. It is only in countries with federal constitutions where the distribution of powers between the federating states and the federation is explicitly laid down in the constitution that conflicts in authority arise.

284. The constitutions of the U.S.A., Canada and Australia, all federal countries, clearly demarcate the powers of the federal government from those of the federating states and empower the judiciary to interpret the scope of this demarcation. Since most of the federal constitutions date from a period when *'laissez faire'* was the rule and industrial technique had not advanced, the tendency was to entrust as little power to the federation and to retain as much power with the federating units as possible. Under the stress of the increasing complexity of economic forces and the growing consciousness of the responsibility of the State for securing the well-being of the people, the balance of power as between the federating units and the federation has been undergoing continuous change through legislative amendment, judicial interpretation or constitutional convention in favour of the federation.

285. In the United States, the activities of the Federal Government have been enormously expanded through the 'commerce' clause and the 'general welfare' clause of the constitution. During the tenure of office of Chief Justice Marshall, the Supreme Court gave decisions in several cases widening the powers of the Federation *vis-a-vis* the States To quote one instance, an attempt by the Maryland Legislature to assert the right of taxation over the banks established by the Federal Government in its territory was thwarted by the Supreme Court's Judgement in McCulloch v. Maryland (1816) in which the Court declared that "the States have no power, by taxation or otherwise, to retard, impede, burden or in any manner control the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general Government". The constitution makes no specific reference to agriculture (i) *U.S.A.*

as such and confers no express powers on the Federal Government in relation to agriculture; but the trade in agricultural products is a part of inter-State commerce and as such comes within the purview of Federal Legislation. The United States Congress moreover has the power to levy excise on the produce of the land as on all other produce, and can use this taxing power to regulate the value and character of agricultural production.

286. The Federal Government can also influence agricultural policy in the individual States by making grants out of Federal funds for particular purposes. When the Agricultural Adjustment Act of 1933, enacted to secure a reduction in agricultural surpluses by making benefit payments out of the proceeds of the processing tax, was declared unconstitutional by the Supreme Court, the United States Congress passed the Agricultural Adjustment Act of 1938 instead which empowered the Secretary of Agriculture to make grants, loans and parity payments to the farmers for the purpose of securing the conservation of national soil resources and an adequate and balanced flow of agricultural commodities in inter-State and foreign commerce.

287. Another way in which the Federal Government has enforced its economic policy is by the creation of special *adhoc* corporations such as the Tennessee Valley Authority. This corporation was established during the world depression when the Federal Government was compelled to intervene in the economic sphere on an unprecedented scale. "The T. V. A. represented an altogether different conception of the management of a modern nation's economic resources: that of enterprise on a large scale, deliberately undertaken by the public authorities, with certain social and economic purposes clearly in mind from the beginning"*. The enterprise was fraught with great difficulty. The valley is divided politically amongst seven States and hundreds of local government units, cities and countries. None of these is vested with authority over more than a fraction of the valley nor are the boundaries of the States coincident with the most appropriate area of economic organisation. No single State or single private enterprise or even a consortium of a few States and a few enterprises could have coped up with the task of developing the Valley to its fullest

*T. V. A.—Hermann Finer.

potentialities. "The enterprise necessary for developing the valley had to be such as could see the valley steadily and see it whole". The difficulty of securing the co-operation of the seven States which trench upon the valley was overcome only because the constitution of the United States gives the Federal Government full authority over navigable rivers and inter-State commerce. In the absence of such authority, it would have been necessary for the seven valley States to make a compact among themselves to accomplish the aims that are embodied in the T.V.A., and such a compact between one State and another can only be entered into, according to the constitution, by the consent of the United States Congress.

288. In Canada, the position of the Dominion Government vis-a-vis the Provinces is less strong than that of the Federal Government vis-a-vis the States in the U.S.A. Although Section 91 of the British North America Act, 1867, conferred all residuary powers on the Dominion Government by specifying that it had power "to make laws for the peace, order and good government of Canada, in relation to all matters not coming within the classes of subjects by this Act assigned exclusively to the legislatures of the Provinces", the Privy Council put a restrictive interpretation on this section by deciding that the Dominion Government had power to make such laws only in temporary and overwhelming emergencies such as war, pestilence or famine. The result was that a good deal of legislation relating to social services, such as that dealing with minimum wages, hours of work, unemployment insurance etc. had to be undertaken by the Provinces. This naturally led to varying standards of social security and labour legislation being adopted in different Provinces, particularly as the financial powers of the Provinces were limited to "direct taxation within the Province" under Section 92 (2) of the British North America Act, 1867. Moreover, although the Dominion Government was given powers to regulate trade and commerce under Section 91 (2) of the Act, the Privy Council declared the Natural Products Marketing Act which provided for the marketing and distribution of products by a Dominion Marketing Board invalid on the ground that the Dominion Government did not have the power to regulate trading transactions completed within a single Province. The Dominion Government has however considerable powers for economic regulation under Section 81 of the Act and has used them to control companies with Dominion charters, banks, and the grain, transportation and shipping trade.

(ii) Canada.

289. The Dominion Government has therefore been obliged to rely more on special financial grants for making its policy effective. Since the grants to the Provinces have been conditional they have led to friction between the Dominion and Provincial Governments. Owing to the dependence of many Provinces on single products and their helplessness in the face of economic catastrophies, they had little choice in the matter and had to accept the grants in spite of the conditions imposed. During the depression, the wheat-growing Provinces found that it was beyond their financial resources to prevent the threatened collapse of their agriculture and had to accept a large measure of central control in return for assistance from the Dominion Government.

(iii) Australia.

290. In Australia, the Commonwealth of Australia Constitution Act of 1900 laid down that the Commonwealth Parliament had the "power to make laws for the peace, order and good government of the Commonwealth with respect to (*inter alia*) taxation; but so as not to discriminate between States or parts of States". Section 88 of the Constitution granted the Commonwealth Government exclusive power to levy indirect taxation in the form of customs and excise, but under Section 87, the Commonwealth was allocated only 1/4th of the annual net revenue from these duties, the balance being handed over to the States. The power for direct taxation was left almost entirely with the States but the Commonwealth has gradually impinged on this field of taxation as well. In 1910-11, it levied a land tax and in 1914-15, estate duties, both direct taxes. During World War I, it levied a direct tax in the form of an income-tax. During World War II, when enormous expenditure by the Commonwealth Government became necessary, this tendency was accentuated and was signalised in 1942 by the passing of uniform income-tax legislation by the Australian Government. These laws practically involved the retirement of the States from the field of income taxation for the duration of the war and one year thereafter, and sought to accord priority to the payment of federal income-tax over the States' own income-tax during this period. In return, the States were to be given grants based on their average income-tax collection for the last two years. The bills embodying these proposals were passed by the Australian Legislature in June 1942 and immediately the Governments of Victoria, Queensland, South Australia and Western Australia appealed to the High Court to invalidate the Acts as *ultra vires* under the Commonwealth Constitution. The High Court however held by a majority that the Acts were valid in their entirety.

Subsequently the Commonwealth Government has levied an entertainments tax which hitherto had been a State source of revenue. The trend towards increased powers for the Commonwealth Government is thus unmistakable in Australia. In fact the Right Honourable Mr. R. G. Menzies, K.C., former Attorney-General of the Commonwealth Government, has stated that since the High Court judgment of 1942 validating the Act providing for a uniform tax, Australia must be regarded as a unitary rather than a federal State. Recent plans for post-war reconstruction also appear to reinforce this view. In December, 1942 a bill was introduced in the Commonwealth Parliament providing for the transfer by the States to the Commonwealth of specified powers for a period of five years after the cessation of hostilities. These powers are intended to enable the Commonwealth to make laws with regard to such far-reaching subjects as organised marketing of commodities, primary production, family allowances, and combines and monoplies. The bill was passed by all the State Parliaments with two exceptions, Victoria and Tasmania.

291. The Commonwealth Government has also power to grant financial assistance to the States. Section 96 of the Commonwealth of Australia Constitution Act, 1900 reads "during the period of 10 years after the establishment of the Commonwealth and thereafter till the Parliament otherwise provides, the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit". The manner in which the Commonwealth Government has discharged its responsibilities in this regard has gradually changed. To begin with, each State was credited with the Commonwealth revenue collected in that State and debited with the expenditure incurred on its behalf in the transferred departments and also with a share of the new expenditure of the Commonwealth. Subsequently, this system was terminated by the Commonwealth Government and it gave grants to the States on a *per capita* basis. This in turn was replaced by a system of centralised handling of the public debts of the Commonwealth and the States. Finally, in 1933, the present system of making grants to the States on the recommendations of a Commonwealth Grants Commission was adopted. The Commission consists of three members, and is required to enquire into and report upon any claims made by any State for a grant of financial assistance under Section 96 of the Constitution. The Commission, impressed by the variations in the economic position of the different States, laid down the fundamental principle in 1936 that "special grants

from the Commonwealth are justified when a State through financial stress for any cause is unable efficiently to discharge its functions as a member of the federation and should be determined by the amount of help found necessary to make it possible for that State by reasonable effort to function at a standard not appreciably below that of other States ".

(iv) Lessons.

292. The problem of securing a co-ordinated development of economic resources has thus been tackled in these countries firstly, by a gradual increase in the powers of the federal government, secondly, by securing the co-operation of the federating States through financial grants to them for specific purposes, and thirdly, by the creation of special corporate agencies invested with the necessary powers by the federating units for discharging specific functions in an integrated manner over a whole region.

Increase in powers of central government in India.

293. In India the possibilities of an increase in the sphere of authority of the Central Government seem remote. The trend of opinion in the country appears to be all in the direction of increased autonomy for the Provinces. While we do not hazard any guess as to the political set-up which may finally emerge, we think it unlikely that there will be vested in the Central Government power over the subjects with which our enquiry is concerned.

Grants-in-aid to provinces.

294. Grants from Central revenues to the Provinces for specific purposes have been made both before and during the war, and while they have their own utility, they also lead to some difficulties. While the Central Government appropriates funds from its own revenues to the Provinces which could well have been devoted to the discharge of its own constitutional sphere of responsibilities, it has no specific means by which to ensure that the funds appropriated have in fact secured the objectives aimed at. It has to eschew any close scrutiny or inspection of the channels of expenditure lest it migh give rise to resentment in the Provinces. A situation of this nature where taxation is the responsibility of one authority and expenditure of another naturally gives rise to complications. The method of grants-in-aid is efficacious when there exists in the Provinces a fairly uniform degree of efficiency of administration and a feeling of mutual trust and confidence, so that the assistance offered by the Centre and the assessment of its results by it are regarded as an act of co-operation which is welcome rather than as an interference which is unwarranted. While grants-in-aid should be resorted to for securing action by the Provinces

in specific directions to secure limited ends, they will not prove effective when what is aimed at is the formulation and enforcement of the entire price policy for the country in the sphere of agriculture.

Inter-provincial co-operation.

295. The only other method open is to create a special agency based on the mutual co-operation of the Centre, Provinces and States. The interests of the Provinces and States are so inextricably inter-related and interdependent that such co-operation is welcome to all and it is in fact a necessary condition of their development. The well-being of cultivators in their respective areas will be of over-riding importance to each of them and a common machinery for the formulation and execution of price policy is therefore bound to emerge. The Provinces and States are much more vitally interested than the Centre in the maintenance of remunerative prices since their major sources of revenue depend on the prosperity of the countryside. It is they who have to carry the brunt of public opinion in the face of agrarian distress and to undertake the necessary remedial measures. We have every reason to believe that their co-operation will be forthcoming if an appropriate machinery is devised for the purpose.

296. It is important to remember that even before the war, attempts were successfully made to secure the co-operation of the Provinces, States and the Centre through bodies such as the Imperial Council of Agricultural Research, the Indian Central Cotton Committee, the Indian Central Jute Committee, etc. These bodies were constituted for the purpose of undertaking programmes of research and development in particular spheres and their scope of work did not extend to questions of economic policy of a general nature; they provide, however, illustrations of successful joint enterprise, planned and conducted by specially constituted authorities, representative of Central, Provincial and State Governments.

297. During the war, though the Central Government had difficulties in the initial years with the Provinces and States in implementing its responsibilities for the conduct of the war, the periodical conferences of the Central and Provincial Governments soon led to a better understanding of each other's difficulties and to a greater degree of co-operation between them. The working of the Central Food Department is an example of the successful co-operation between the Centre, Provinces and States under extremely trying circumstances. Although it has not yet been possible to devise a uniform pattern for the procurement systems in all areas, all these systems

have been organised on the common principle of eliminating competitive buying and creating conditions approximating to monopoly procurement so as to bring under the physical control of Government the maximum possible amount of the marketable surplus of foodgrains. The Central Food Advisory Council, which consists of representatives both of the Central and Provincial Governments has also proved a fruitful medium of co-operation. We understand that the Central and Provincial Governments are also co-operating in the projects for the multi-sided development of the Damodar Valley and the Sone Valley areas and for the setting up of a fertiliser factory at Sindri.

All-India agricultural prices council.

298. We have no doubt that the machinery to be employed for the purpose of implementing the price policy should also be constituted on the same principle and that it should take the form of an independent authority, representative of the different Governments concerned. We are glad to note that the Famine Enquiry Commission also came to a similar conclusion and recommended the establishment of a permanent organisation called the All-India Food Council as the common organ for co-ordinating the activities of the different governments in framing and executing a common food policy for the country. In our opinion, it is impossible to segregate the problems of foodcrops from the problems of other agricultural crops with which they are inextricably interrelated, and we therefore recommend that the machinery created should deal with both food and non-food agricultural products. It should be called the All-India Agricultural Prices Council.

(i) Composition.

299. With respect to the composition of such a Council, we have considered whether it should consist only of representatives of Governments or provision should also be made for representation of the different interests concerned such as the growers, traders, processors and consumers. We are of opinion that while different interests need to be associated with the making of policy in order to ensure that the policy adopted is sound from a technical and practical point of view, such association should only be of an advisory character. The representatives of sectional interests cannot be vested with the power of making decisions which must remain the function of Governments. The All-India Agricultural Prices Council should therefore consist of representatives of the Central, Provincial and State Governments alone. We indicate later the stage at which and the manner in which representatives of different interests should be associated with the making of policy.

300. The All-India Agricultural Prices Council should consist of 22 members. The Central Government should have four representatives in view of the important role that the Centre must play in the co-ordination of policy and also in view of the responsibility of the Central Government for the administration of the centrally administered areas. These representatives should ordinarily be Members of the Cabinet, holding the portfolios of Agriculture, Food, Commerce and Finance. The presence of the Cabinet Members-in-charge of Commerce and Finance on the Council is essential because of the close connection of trade and tariff policy and of financial policy respectively with price policy. In addition to the representatives of the Central Government, there should be eleven representatives representing the eleven Provinces, who should ordinarily be the Mninisters-in-charge of Agriculture and Food in each Province. The representation of Indian States will have to be decided in the light of their relative stakes in the price fixation programme. The total area of Indian States is 89% of the area of the Provinces, but the proportion of the cultivated area of the States is only 69% of the cultivated area of the Provinces. If we take population as the criterion, the population of the States is 32% of the population of the Provinces. Taking these factors into account, we are of opinion that the States should be given representation to the extent of about 60% of the representation accorded to the Provinces and therefore recommend that the States as a group should be represented by 7 members on the Council. Representatives from Indian States should be selected on an agreed basis. The Council should be presided over by the Member of the Central Government Cabinet holding the portfolio of Agriculture and the decisions of the Council should be taken by a majority vote.

(ii) Powers.

301. We realise that the Council will have no legal powers of its own, and will derive all its powers by the voluntary association and co-operation of Provinces and States. We believe, however, that all Provinces and States will realise the advantage of evolving a policy and programme which would be in the common interest and will establish a convention that each Province and State should voluntarily implement the decisions of the Council. The Council will arrive at conclusions only after examining the points of view of all the Povinces and States, and reconciling their conflicting interests to the maximum extent. Its conclusions will thus represent the highest common factor of opinion and they will command universal acceptance because they will influence

the economic prosperity of the whole country and provide a sense of security to the whole population. Even though a particular Province or State may at times harbour a sense of grievance on a specific decision of the Council, it would ordinarily not challenge the authority of the Council because it would be interested in other decisions of the Council as well, some of which may well be in her favour. It will be recognised that while each has to submit to a certain extent to the authority of others, each has also a share in exercising authority over others. A convention, freely negotiated on the basis of mutual interest, is likely to be more effective in practice than any legal sanction.

(iii) Functions.

302. The All-India Agricultural Prices Council should formulate and enforce a price-policy for agricultural commodities in the country. It should decide for what commodities prices need to be fixed and for what commodities assistance needs to be given through other methods. It should determine the levels at which minimum and maximum prices should be fixed for the commodities selected and whether fixation of prices should be supplemented by production and consumption subsidies. It should consider the ways and means necessary for enforcing the prices fixed and should take appropriate measures for the purpose. It should try to co-ordinate the activities of the various agencies, whether private, co-operative or Governmental, operating in the field of Agriculture and secure their co-operation by providing suitable inducements. The decisions of the Council will have no mandatory effect by themselves but they should be implemented as a matter of constitutional convention by the member units.

(iv) Staff.

303. The Council should have a full-time Secretary of its own with adequate staff under him. He will be responsible for arranging the business of the Council and placing material before it in a form which will enable the Council to arrive at decisions. He will convey the decisions of the Council to the different Governments represented on it and submit to the Council, from time to time, reports on the extent to which and the manner in which these decisions have been implemented.

Executive organs of the all India agricultural prices council.

304. Since the All-India Agricultural Prices Council, will consist of representatives of ministerial status, its composition will be of a changing character and it will meet only at regular intervals. It will therefore be necessary for the Council to have under it a permanent machinery for the discharge of its functions. While the Council

will be the fountain of all authority and take final decisions on all matters, its decisions should be implemented through appropriate organs of administration. The functions of the All-India Agricultural Prices Council may be broadly classified into two categories, *viz.*, (*i*) the determination of minimum and maximum prices, and (*ii*) the enforcement of the prices fixed. The administrative organs created should therefore be adapted to the requirements of these two functions.

Price determination.

305. The determination of prices is an extremely complex and responsible task involving the reconciliation of different interests and the selection of appropriate methods of assistance in each case. Each of the interests affected need to be given an opportunity of putting forward its own point of view before prices are determined and the price-determining authority should be so constituted that its decision will command respect and be accepted as fair and impartial by all the interests concerned. It will have to consider the probable effects of various alternative levels of prices and should have the technical competence to decide as to which particular level will be appropriate in a given set of circumstances. The function of determining minimum and maximum prices is thus partly judicial and partly technical in character and the administrative organ created for the purpose should be such as would satisfy these two requirements.

306. The principle of appointing a special body for such a purpose is by no means novel. It has already been adopted in the case of trade and industrial policy by the appointment of Tariff Boards to investigate and report upon applications of industries for State assistance. Tariff Boards, however, are at present appointed *ad hoc* for the purpose of examining the question of protection to specified industries and cease to exist after they have submitted their reports. This prevents the emergence of continuity of policy, so essential for the growth of sound and healthy traditions, and divorces the formulation of policy from the responsibility for watching its effects and revising it from time to time in the light of experience. Even in the sphere of agriculture, there exists at present a similar body in the Price Advisory Committee of the Food Department set up in 1945 for advising the Government of India on the fixation of prices for foodgrains. This committee however consists of representatives of producers and consumers it is appointed by the Central Government itself and its advice is not binding. In our opinion, in a body of this type, whose decisions affect all classes of people, there should be no place for

representatives of sectional interests as such and it should consist only of persons of technical ability and judicial competence. The representatives of sectional interests should no doubt have adequate opportunities of putting forward their case, but they should not be in a position where they would be judges in their own suit. The decisions of such a body should normally be accepted by Government.

Price determination commission.

307. We recommend therefore that the All-India Agricultural Prices Council should set up a special Price Determination Commission for the specific purpose of advising it on all aspects of price fixation. The members of the Commission should be appointed by the All-India Agricultural Prices Council on the recommendation of an appointments committee constituted by it according to an agreed procedure.

(i) Composition.

308. The Commission should consist of three members including the Chairman and they should be appointed for a five-year term, subject to renewal. The members of the Commission should be selected on the basis of special qualifications. One member should be a person with long experience of agriculture, either as a senior officer in the Agriculture Department or as a practical farmer on a substantial scale, so that he will be able to judge the effects of the policy proposed and to visualise the practical difficulties involved in its implementation. The second member should be an economist with experience of finance, so that he may be able to examine the financial implications of the different measures suggested and bring to bear upon the deliberations of the Commission, a wide and general economic perspective. The third member, who will also be the Chairman, should be either a person who has occupied a seat on the bench of a High Court of Judicature of one of the Provinces or of the Federal Court and has had experience of dealing with commercial legislation or a person who has held high administrative posts of a quasi-judicial character. His presence on the Commission will ensure that a fair hearing is given to all the parties concerned and that all the relevant factors are taken into consideration before arriving at a decision. The Commission should have a Secretary of its own with appropriate staff.

(ii) Bureau of economics and statistics.

309. The Price Determination Commission should have under it a Bureau of Economics and Statistics, which should make available to it all the statistical material necessary to enable it to discharge its functions. The Bureau should regularly collect and compile statistics of acreage and yield and data relating to prices received, prices paid, loans borrowed and taxes paid by the farming

community. It should analyse and forecast demand, supply, and price relationship for the major commodities, study farm organization, and examine the burden, incidence and effects of State programmes of agricultural assistance. The Bureau should make full use of the data supplied by the Provincial and State Governments, commercial bodies like the Imperial Bank of India, Chambers of Commerce and Trade Associations, and other channels and organize sample surveys on its own initiative, where necessary. In particular, it should organize in co-operation with other agencies enquiries into the costs of production of crops and the costs of living in rural areas. It should in due course develop on the lines of the Bureau of Agricultural Economics of the U.S. Department of Agriculture.

(iii) Functions.

310. The function of the Commission would be to determine minimum and maximum prices for different regions for agricultural commodities designated by the All-India Agricultural Prices Council and suggest what measures are called for in order to enforce these prices. It should also suggest whether any measures of control such as imposition of restrictions on foreign trade, regulation of production, transport, marketing, prices, etc., require to be adopted. The Commission should proceed to consider the question of price fixation for a commodity, either on a direction by the Council, or on a representation by the interests concerned, or on its own initiative. While examining the question, it should receive evidence, written or oral, from all interests, tendered in person or through counsel. It should also consult the appropriate advisory committee of the different advisory committees, the setting up of which we recommend later. It should base its decisions on the general principle of securing adequate and stable returns for agriculture and a fair relationship between the returns from agriculture and those from other comparable occupations and should interpret its responsibilities in the light of the principles laid down by us in the preceding chapters of the Report which should form its instrument of instructions. It should maintain close contact with enforcement operations and should continually watch the trend of market prices *vis-a-vis* the minimum and maximum prices fixed. The conclusions of the Commission will be communicated in the form of recommendations to the All-India Agricultural Prices Council which alone will be competent to make final decisions. The recommendations of an expert technical and semi-judicial body like the Commission will however carry great weight and be decisive in significance.

Price enforcement.

311. After the All-India Agricultural Prices Council has examined the recommendations of the Price Determination Commission and arrived at definite decisions thereto, these decisions will have to be enforced through appropriate measures. The programme for enforcement will consist of a wide variety of measures, including large-scale purchase and sale operations, and building up of buffer stocks, which practically involve setting up business in competition with private enterprise on a very large scale.

Defects of departmental administration.

312. We are of opinion that the enforcement programme cannot be carried out with sufficient efficiency and despatch through the normal machinery of a government department. In saying this we are not unmindful of the work of the Central Food Department, which has been struggling since its inception with the many problems that have cropped up during war-time in connection with food distribution. It has, in co-operation with food administrations of the Provincial and State Governments, tried to evolve an All-India Food Policy and to enforce it through procurement, planned movement, storage and rationing. The present activities of the Central Food Department thus cover practically all types of measures necessary for implementing a price fixation policy, thus demonstrating the practicability of such a policy. The working of a government department is however so much beset with red tape and procedural delay that it is incapable of taking decisions with the speed and elasticity essential for market operations. A departmental administration, since it does not provide the financial incentives indispensable for the working of a commercial enterprise, proves to be more wasteful in practice. Even when animated with the best of motives, the very set-up of the administration is such that it cannot be adapted to what is essentially a business function.

Merits of a business corporation.

313. In our opinion, the machinery necessary for this purpose must be akin to a business corporation with its essential freedom and elasticity of operation. An independent corporation will remove the function outside the field of political controversy and will yet enforce the policy of the State. It will have its own self-contained financial balance-sheet with the incentive and corrective of profit and loss, so indispensable for successful business. Even if its profits and losses ultimately fall to the State, the separation of its finances will clearly bring out the burden or benefit to the exchequer resulting from its operations. It will be able to plan its operations for the future without having constantly to obtain Govern-

mental sanction. It would be a body "clothed with the power of Government, but possessed of the flexibility and initiative of a private enterprise."*

314. The principle of having an independent body as distinguished from ordinary departments of government for a function of this type has already been recognised in most countries. In the United States of America there are numerous corporations, each established for a specific purpose, such as the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Tennessee Valley Corporation, the Commodity Credit Corporation, etc. In Canada, the Agricultural Prices Support Board and the Wheat Board are independent corporate bodies, operating through separate accounts kept by the Minister of Finance. In the United Kingdom, the statutory public corporation has been adopted as a common means for taking certain functions of a public utility character outside the turmoil of party politics and the London Passenger Transport Board, the British Broadcasting Company, the Central Electricity Board are all corporations of this type. It is understood that the Government of India also propose to set up similar independent authorities for the development of the Damodar Valley and for the Fertilizer Factory at Sindri. A large number of autonomous commercial undertakings under the joint ownership of the Central Government, the Provincial Governments and private carriers may soon be constituted in the field of road transport. The operations necessary to enforce the price fixation programme will also be of an essentially commercial character and should therefore form the responsibility of an independent corporation specially set up for the purpose and working within the limits of any general directives that it may receive.

Single commodity or multi-commodity corporation.

315. We have carefully considered whether there should be separate corporations for separate agricultural commodities, but have come to the conclusion that the object in view will be best served by having a single corporation dealing with all commodities. While we recognise that each commodity may have problems which are in a sense specific to itself, it is the very essence of our proposal that there should be evolved an inter-related price policy which will maintain an appropriate relationship between prices of different commodities. Agricultural commodities compete with each other both in the sphere of production as well as for the purpose of

*President Roosevelt's address to Congress on the occasion of the T.V.A. Act.

consumption, and the price policy adopted must be such as would secure a balance between the production of different commodities and existing conditions of supply and demand. The principle of constituting specialized organizations for each commodity as in the case of the various central commodity committees constituted for the purpose of research and development cannot be appropriately applied when the function is to evolve an integrated price policy for all commodities. The emphasis here is not on a commodity as such, but on the price relationship as between different commodities, and the factors influencing prices are usually common to all commodities. A single corporation dealing with all commodities will besides result in the distribution of risks arising out of trading operations and reduce the financial liability. The Corporation may however be organised if necessary in different sections, each dealing with a particular commodity.

Commodity corporation.

316. We recommend therefore that for the purpose of carrying out its enforcement programme, the All-India Agricultural Prices Council should set up a statutory corporation which may be called the Commodity Corporation. It should be a body corporate, with capacity to contract, to sue and be sued in its own right. Many of the measures that the Corporation may have to undertake are already being administered by the Food Departments at the Centre and in the Provinces and their technical and administrative personnel who by now have acquired a good deal of experience should be placed at the disposal of the Corporation when it is constituted.

(i) Functions.

317. The Corporation should take all measures that may be necessary to carry into effect the policy laid down and the instructions given to it from time to time by the All-India Agricultural Prices Council. Within the limits of these instructions, the corporation will resort to such measures as it thinks necessary for the execution of its responsibilities. It will undertake the purchase and sale of designated agricultural products at the minimum and maximum prices fixed by the Council. It will guarantee to purchase all that is offered to it at the minimum prices fixed. It will also undertake to sell from its stocks at the maximum prices. It will, at its discretion, begin its operations as soon as prices show a tendency to fall below the minimum or rise above the maximum, so as to prevent market prices from departing from the range fixed. It will also have the power to purchase and sell the produce on its own initiative at the market price in order to build up its buffer stocks and turn over the stocks in its posses-

sion. It will package, process, store and transport products and undertake imports and exports. Besides the outright purchase and sale of agricultural produce, it will be open to the Corporation to borrow or make loans on the security of produce and of land and buildings. It will carry out its functions either through its own agencies or through the agency of Provincial and State Governments or through the appointment of licensed trade agents to whom quotas may be allotted and necessary instructions issued. It will also act, if called upon, as the agent of the Central, Provincial or State Governments for the purpose of purchase and sale of any agricultural product. Any sales made to Provincial or State Governments from its own stocks will however be at a price not lower than the maximum price. In the case of famines, when the Provincial or State Governments consider it necessary to make sales on a subsidized basis within their area, they should purchase any stocks they need from the corporation at the maximum price and later sell them at any price they choose. Any loss on account of such emergencies will be borne by the Governments concerned and not by the Corporation whose business character must be preserved. Its powers should be wide enough to enable it to discharge its functions with efficiency and effectiveness. It should report from time to time to the All-India Agricultural Prices Council on matters falling within its sphere of responsibility and should also be free to take the initiative in preparing plans of future development.

(ii) Capital stock.

318. The Corporation will need long term finance for the construction of warehouses and for making loans to others for such construction. The finance required will depend upon the number of commodities selected for price fixation which will increase from time to time. If, for instance, rice, wheat, jowar and bajra are selected for price fixation in the beginning, the amount of fixed capital necessary may be estimated at Rs. 6.2 crores. This will therefore constitute the minimum capital with which the corporation should be started and its capital may be increased later as may be necessary.

(iii) Ownership.

319. We have considered whether this capital should be raised from the public or whether its issue should be restricted only to Governments. The experience of most countries is that in the case of corporations whose activities vitally affect the economic life of the country, private ownership creates difficulties which ultimately force the State to acquire ownership itself. In any case, the control of such corporations has of necessity to rest with the State, if they are to be used as an instrument of State

policy. The combination of private ownership and State control creates an anomalous position in which the stockholders have no incentive and the State no responsibility. If the corporation is to be both an instrument of State policy and a successful commercial undertaking, it is essential that its ownership as well as control should be vested in the State.

(iv) *Allotment of stocks.*

320. We recommend therefore that the entire capital of the Corporation should be subscribed jointly by the Central, Provincial and State Governments in suitable proportions. Since the prosperity of agriculture all over the country is a matter of prime concern to the Central Government, it is essential that the Central Government should contribute a substantial portion of its capital. It is our opinion that this contribution should amount to 30 per cent of the total capital plus 1 per cent on behalf of the centrally administered areas. The remaining 69% of the capital should be contributed by the Provinces and States in proportion to the area and population in their respective territories and it may be roughly allocated on the basis of 49% to the Provinces and 20% to the States. The capital allotted to the Provinces and States should be further distributed amongst each group on some agreed basis such as population, land revenue, total revenue etc. The following table shows the respective shares of the Provinces on alternative basis of allocation.

BASIS OF ALLOCATION

	Population.		Land Revenue.				Revenue From All Sources Other Than Income Tax.				Revenue From All Sources.			
			1938-39.		1943-44		1938-39		1943-44		1938-39		1943-44	
	Population 1941.	Percentage of Total.	Amount (Rs. Lakhs)	Percentage of Total.	Amount (Rs. Lakhs.	Percentage of Total.	Amount (Rs. Lakhs).	Percentage of Total.	Amount (Rs. Lakhs).	Percentage of Total.	Amount (Rs. Lakhs.)	Percentage of Total.	Amount (Rs. Lakhs.	Percentage of Total.
Bengal ...	80,887	20.4	324	12.4	410	13.4	1247	14.6	1900	18.1	1277	14.8	2355	13.8
Madras ...	49,342	16.7	518	19.7	508	16.6	1590	18.8	2691	17.9	1513	18.7	2984	17.5
Bombay ...	20,850	7.0	355	13.6	322	10.5	1215	14.4	2151	14.2	1245	14.5	2521	14.8
Sind ...	4,535	1.2	36	1.4	74	2.4	419	5.0	955	6.4	370	4.3	994	5.8
C. P. and Berar	16,818	5.7	212	8.1	287	9.4	367	4.3	758	5.0	427	5.0	856	5.1
Punjab ...	28,419	9.6	264	10.1	366	12.0	1124	13.3	2477	18.5	1136	13.3	2633	15.4
N. W. F. P. ...	3,038	1.0	18	0.69	23	0.75	179	2.1	236	1.6	181	2.1	256	1.5
Assam ...	10,205	3.5	118	4.3	166	5.4	255	3.0	421	2.8	528	3.0	517	3.0
Bihar ...	36,340	12.3	132	5.0	141	3.6	509	6.0	817	5.0	524	6.1	231	5.1
Orissa ...	8,729	3.0	46	1.8	51	1.7	179	2.1	217	1.4	82	2.1	256	1.5
U. P. ...	55,021	18.6	582	22.2	668	21.9	1257	14.19	2188	14.2	1280	14.8	2426	14.2
(Ajmer-Merwara, Coorg, Delhi and Br. Baluchistan.)	2,173	0.78	23	0.88	39	1.2	115	1.4	217	1.4	115	1.8	215	1.8
Total British India.	295,772	100.0	2618	100.0	80,54	100.0	84,56	100.0	150,18	100.0	86,08	100.0	170,44	100.0

The allocation amongst the States may also be made on similar principles. The respective percentage shares in the capital stocks may roughly be as under :—

1.	Central Government	
	(*a*) on own account 30%	
	(*b*) On account of centrally administered areas 1%	31%
2.	Indian States	20%
3.	U.P.	9%
4.	Madras	7.5%
5.	Bengal	7%
6.	Punjab	6%
7.	Bombay	6%
8.	C.P. & Berar	4%
9.	Bihar	3.5%
10.	Assam	2.5%
11.	Sind	1.5%
12.	Orissa	1%
13.	N.W.F.P.	1%
		100%

We put forward these shares only as a tentative basis for discussion. They are merely intended to serve as an illustration of the principles on which share capital may be allotted, and the participating Governments should decide their respective contributions by mutual agreement. The share capital allotted should be non-transferable, and if a share is not taken up by the Province or State to whom it is allotted it should for the time being be taken up by the Central Government, subject to the proviso that it should be open to the Province and State in question to ask for its transfer to itself at a later date.

(v) Working capital.

321. The Corporation will need working capital for purchasing and holding stocks of produce and for giving loans to growers, traders, processors and co-operatives for holding stocks themselves. The total capital that may be necessary will depend upon the commodities selected for price-fixation, the quantities of buffer stocks, the prices at which these stocks are purchased, etc. If price fixation is extended only to rice, wheat, jowar and bajra, in the beginning and an average price of Rs. 8/- per maund is assumed, the total amount of working capital that may be necessary would amount to Rs. 32 crores. We leave the exact method of financing the day-to-day operations of the Corporation to be decided by it in consultation with the Reserve Bank of India and the Finance Department of the Government of India.

322. We anticipate that the working of the corporation will under normal conditions show a profit because of the difference between the minimum price at which it is required to buy and the maximum price at which it is required to sell. A profit may also arise on transactions in import and export trade out of the difference between national and international prices. The annual operating expenses of the Corporation, if price-fixation is extended only to wheat, rice, jowar and bajra, are estimated at Rs. 2.67 crores. This figure does not take into account the losses that may result due to enforcing the price policy in the event of a general slump in prices. The profits should cover the annual operating expenses and any surplus should be utilized to form a reserve fund. In certain situations for instance when the prices fixed for a commodity in one year happen to be lower than the prices fixed for it in the preceding year, the value of the stocks held by the Corporation will depreciate and losses will arise. It is our belief that over a sufficiently long period of time, profits and losses may cancel out, and that the stockholders of the Corporation may be able to obtain a return on their holdings which is at least equal to the yield on long-term Government securities. In order to guard against the contingency of loss, however, the Corporation should build up a strong reserve fund. We recommend that until an adequate reserve is built up, any profits arising out of the activities of the Corporation should be carried into the reserve while losses, if any, should be made up by the participating Governments in an agreed proportion. This may take on an optimistic basis about five years. Thereafter, any losses should be met out of the reserve fund to an extent to be determined by the Council, and the balance met by contributions from the participating Governments in an agreed proportion.

(vi) Profit and loss.

323. The affairs of the Corporation should be managed by a small Board of Directors, which combines administrative and technical efficiency. It should take day-to-day decisions of administration as well as plan a long-term policy, within the limits of the instructions given by the All-India Agricultural Prices Council. The members of the Board should, on the recommendations of its appointments committee, be appointed by the All-India Agricultural Prices Council whose constitutent un[illegible] will jointly hold the stock of the corporation. The persons appointed to the Board should enjoy a sufficiently long tenure so that they may be able to plan the future

(vii) Board of Directors.

programme of the corporation in security and they should be persons of high public standing and recognised integrity.

324. The Board of Directors should consist of three persons including the Chairman. One of the members should have had long experience of the management of a business undertaking. The second member should be a person with wide experience of banking and finance. The third member, who should also be the chairman of the Board, should possess wide administrative experience in a department of Government. The three Directors should together form the Board and its decisions should be taken by a majority vote. They should be paid a salary which is on a par with the salaries paid by business undertakings of equal importance and should be appointed for a term of five years in the first instance. On appointment, they should relinquish any interest that they may have in private corporations and should devote themselves entirely to the work of the corporation on a full-time basis. The Board of Directors should concern itself with all major decisions of the enterprise, make all appointments under the corporation and represent the corporation before the All-India Agricultural Prices Council and the Price Determination Commission.

(viii) Manager.

325. The affairs of the Corporation should be administered by the Manager, under the general supervision and direction of the Board of Directors. He should be responsible for the execution of the policies and decisions of the Board of Directors. He should prepare the agenda, present cases for the decision of the Board and notify different departments of the Corporation of the decisions of the Board. He should keep the Board informed of the current activities of the Corporation, make recommendations to it and prepare special reports for its information. He should have the general oversight of all the departments of the Corporation and should be responsible for their efficient working. We recommend that the Manager of the corporation, who will occupy the pivotal position in its staff, should be a person who has actually occupied a position of similar responsibility under Government or in business.

(ix) Organisation.

326. The Corporation should be organised in a number of different departments at its headquarters, each in charge of a Deputy Manager. There should be a separate department for each commodity such as rice or wheat or for a group of commodities such as millets, oil-seeds, etc. There should be separate departments for each

important function also, such as finance, warehousing, foreign trade, etc. The Corporation should have regional offices located at convenient centres in the Provinces and States so as to carry out the actual operations of purchase and sale and implement the enforcement programme.

327. The Corporation should endeavour to carry out its activities as far as possible through the agency of existing channels of trade and administration. The regional offices of the Corporation should work in close co-operation with the staff of the Provincial and State Governments, in particular with the Director of Agriculture, the Chief Marketing Officer and the Registrar of Co-operative Societies of each area and should employ the agency of private traders and co-operative societies to the maximum extent consistent with efficiency. The Corporation is not intended to serve as a substitute for normal channels of trade and administration but to co-ordinate them in a manner which will facilitate implementation of State policy. It should endeavour to plan its administrative arrangements in such a way that it would permit the appropriate departments of the Provincial and State Governments, co-operative societies, commercial bodies and private traders to share as much as possible in the execution of its programme.

Advisory committe

328. In order to democratise the working of the Price Determination Commission and the Commodity Credit Corporation and to ensure that their operations are sound from a practical and technical point of view, it is necessary to associate representatives of different sectional interests affected with these bodies in an advisory capacity. While we do not advocate the appointment of representatives of sectional interests on the All-India Agricultural Prices Council or the allotment to them of a share in the stock of the Commodity Corporation, we fully appreciate the necessity of giving a hearing to their case and of obtaining their advice at an expert level before decisions are finally made. Their advice is likely to be most useful when it is related to the particular commodity or to the particular function of which they have special knowledge and hence we recommend that Advisory Committees should be set up for each important commodity or group of commodities, and for each important function. These Advisory Committees should consist of representatives of growers, traders, processors, consumers, research workers and other interests connected with the commodity or function in question. This representation should as far as possible be organised through institutional

channels, such as trade associations, central commodity committees, institutes of scientific research, appropriate departments of Government, legislative bodies, etc. These Advisory Committees consisting of persons with intimate experience of the particular commodity or function in question will be able to offer advice with an authority which will command respect. The Price Determination Commission and the Commodity Corporation should be required to call the appropriate Advisory Committees into consultation before important decisions are taken and the Advisory Committees also should have the power to make recommendations on their own initiative to these two bodies and to the All-India Agricultural Prices Council.

Essential preliminary measures.

329. The setting up of the machinery proposed by us will raise a number of constitutional, administrative, and financial issues which will have to be settled before any advance can be made. This will take some time and it is important to ensure that in the meanwhile we do not continue to drift aimlessly and run the risk of being overtaken by a depression. We are therefore of opinion that certain essential preliminary measures should be taken immediately to adapt the existing machinery of the Government of India on the lines suggested by us so that the All-India Agricultural Prices Council will be able to take over an administrative set up which is more or less suited to its requirements. There is already in existence at the present moment a nucleus organisation in the Food Department of the Government of India which has considerable experience of procurement, storage, price control, and related matters. There is also available in the Agricultural Department of the Government of India, a staff of advisers who have a wide range of technical experience. These should be utilized and fitted into an effective organisation for implementing price policy.

330. Certain preliminary measures should be taken without delay. Firstly, a Bureau of Economics and Statistics should be set up for the collection of reliable data of area, yield, costs of production, costs of living and other factors relating to agriculture and animal husbandry. Secondly, the ability of the Government to intervene effectively in the market should be strengthened by the procurement by the Central Food Department of at least 1½ million tons of food-grains such as rice, wheat, jowar and bajra which should be initially selected for price-fixation, so as to constitute a reserve. Thirdly, the Food,

Agriculture and Co-operative Departments of the Centre, Provinces and States, the Reserve Bank of India and the Railway and Port authorities should co-operate in organising under their own auspices as well as through private channels the construction of ware-housing accommodation on a country-wide scale. The storage accommodation constructed by the district governmental authorities should at least be large enough to accommodate 2 million tons of food-grains and it should be handed over to the All-India Agricultural Prices Council when it is set up. The Government of India should also conduct a detailed enquiry into the technical problems relating to storage. Fourthly, suitable trade or other agencies should be selected and appointed, in collaboration with Provinces and States, for the purpose of carrying out purchase and sale operations in different areas on an agency basis. Finally, the Government of India should immediately initiate exploratory talks with the Provincial and State Governments regarding the setting up of the All-India Agricultural Prices Council and should appoint a small staff for the purpose. The Council should be set up as soon as a majority of the Provinces and the premier States express their willingness to join. The Government of India should depute a few officers to the U.K., the U.S.A. and Canada to study the price stabilisation policies pursued there so that we may benefit from foreign experience.

331. Until the Council is set up and it begins to operate, the Central, Provincial and State Governments should endeavour to adapt their existing price policies and their administrative machinery for price-fixing and price-enforcement to the general principles recommended by us in our report.

Conclusion.

332. The All-India Agricultural Prices Council and its two organs, the Price Determination Commission and the Commodity Corporation, will thus be responsible for the entire formulation and execution of agricultural price policy in the country. We have indicated, in brief, the manner in which these bodies should be constituted, the functions they should discharge and the powers that should be entrusted to them. Their successful working in practice will however depend more upon the conventions that they develop and the goodwill that they are able to create than upon their constitutional framework. We realise that it may be contended that these bodies will be able to exercise little influence in the absence of any specific sanctions. It is our faith, however, that what is necessary for their successful functioning is not so much formal authority vested in them as willing co-operation amongst

their constituent units. Such co-operation, we have no doubt, will be forthcoming in generous measures in course of time because of the benefits it will confer on all. The replies that we received to our questionnaire already show a wide realisation of the fact that the prosperity of agriculture and the well-being of the rural population are inextricably linked up with the maintenance of remunerative prices for agricultural produce. Any efforts therefore in the direction of securing this objective will attract universal support. It is our firm belief that the machinery which we have proposed will provide an administrative framework within which the Central, Provincial and State governments can co-operate in implementing their joint responsibility for promoting the well-being of their people.

Chapter X.

Ancillary Measures.

Net income of the cultivator.

333. The policy we have outlined in the preceding chapters is based on our firm belief that increase in agricultural production can be brought about only if agriculture becomes remunerative. The cultivator will undertake improvements to his land and will adopt advanced techniques of cultivation only if it is worth his while, and capital resources will be invested in agriculture only if they can be sure of getting an adequate return. It is only because alternative opportunities of employment are few and agriculture represents to the cultivator a way of living rather than a means of livelihood that he sticks to the land and carries on production in spite of meagre returns. It is however one thing to sullenly drugde at an ancestral vocation and eke out a miserable existence and quite another to enthusiastically adopt expensive new techniques which at heart he mistrusts. As it is, he is sunk deep enough in debt and would prefer to utilize his credit for other, to him, more urgent needs. It is only by maintaining prices at a level which will cover the costs of farming according to improved practices and will provide an income comparable to the income in other occupations that conditions conducive to investment and enterprise can be created. The net income accruing to the cultivator is therefore the very crux of the problem and it is to maintain it that the measures recommended by us are designed.

334. These measures directed to support agricultural prices, though intended to be self-supporting, do involve an enormous contingent cost to the State. Although they are indispensable for restoring prosperity to our largest industry which has been depressed for so long, the greatest vigilance is necessary to ensure that the expenditure of public funds succeeds in providing the necessary incentive to the actual tiller of the soil and is not frittered away amongst the host of intermediate right-holders who crowd the agricultural industry.

335. The net income of the cultivator is the difference between the price he receives for his produce and the payments he makes out of it. We must therefore examine the forces which determine the price at which he sells his produce and the claims for payment which he has to meet, so as to discover ways in which they can be regulated.

Difficulties in marketing.

336. There exists a wide disparity between the price at which the produce is sold to the consumer and the price which the cultivator actually receives. An appreciable part of the price paid by the consumer is absorbed by the retailer, the whole-saler, the broker and a host of other intermediaries, with the result that much too low a proportion of the consumer's rupee reaches the cultivator. The market at present is so organised that the producer suffers from severe handicaps if he markets his produce himself. During the monsoon, the produce cannot be transported owing to the bad condition of *kaccha* roads, and the danger of its getting spoiled in transit. At the market place, business is conducted according to custom which often loads the scales against the cultivator. The broker (dalal) who brings together buyers and sellers and assists in the sale of the produce is more in sympathy with the buyer who usually belongs to his own class. Large "samples" of produce are taken from the cultivator for which he receives no payment even if no sale is effected. There are hardly any arrangements for the settlement of disputes between sellers and buyers in the market and where *Panchayats* exist, they confine their attention mostly to disputes among traders. Charges are levied under a variety of pretexts, many of which are unwarranted and are imposed for purposes which have little connection with the services rendered. There is considerable variation in the charges levied in different markets. In many cases, they are excessive and there is no uniformity of practice as to which of them are to be paid by the seller and which by the buyer. The weights and measures used also vary not only from one Province to another but even in different tracts in the same Province. The position regarding measures is probably worse than that of weights. They are usually made by village artisans and are rarely uniform. Bye-laws prescribing the use of standard weights and measures have been adopted by some municipalities and district boards, but they are more or less a dead letter in most markets. As a result of the lack of sufficient interest on the part of the local authorities, a large number of weights and measures in current use are faulty. This chaotic condition easily lends itself to dishonest practices by unscrupulous persons and comparison of price quotations in different markets therefore becomes unreal.

337. In these circumstances it is hardly surprising that rather than face these difficulties, the ordinary cultivator prefers to sell his grain to the *bania* or to the itinerant *ghumars* and *telis* who visit the villages. As a result of his natural inertia as well as of his anxiety for immediate payment, he enters into contracts of sale with

the wholesaler for any price that may be offered. The existence of these intermediaries through whose hands the produce has to pass before it is finally sold to the consumer gives special importance to the methods and machinery by which the price policy is made effective. If the minimum price guarantee, for instance, is made effective only at a few centres in the country, it will provide a floor only to the value of the stocks held by the intermediary leaving him free to give any price to the cultivator that he may choose. It may increase the tendency towards profiteering and the cultivator will receive no advantage.

Implementation of minimum price guarantee.

338. It is for this reason that we have recommended that the State should undertake to purchase at all the important markets in the country all stocks offered at the minimum price. This will break through the inertia of the cultivator as the nearest market town will be within a reasonable distance from his village and he can easily sell his produce to the State if the price offered by the trader was too low. Adequate arrangements should be made to give wide publicity to the minimum price fixed, and to the nearest markets at which the State will buy the produce, so that the cultivator may have an incentive to hold out for that price and make no sales below it. It should be the constant endeavour of the State to secure the maintenance of market prices all over the producing areas above the minimum price fixed. It should have its intelligence posts in every area, and if it finds that the price in a particular area is unduly low, it should at its discretion make purchases in that area at the minimum price, so as to force up the market price.

Enforcement of the maximum price.

339. We have also recommended that the State should undertake to sell produce from its stocks in the market at the maximum price. This will influence retail prices and limit the profits of traders, thereby reducing the number of intermediaries in the trade.

Reform of marketing.

340. At the same time, measures need to be taken to improve the existing system of marketing. We understand that the whole question is at present under examination by another sub-committee of the Policy Committee on Agriculture, Forestry and Fisheries. We therefore only indicate in brief the two main directions in which progress is called for. Firstly, regulated markets need to be established in all important market centres in the country and arrangements made for licensing of dealers, standardization of weights and measures and grading of produce. Secondly, marketing needs to be organised on co-operative lines.

(i) Regulation of markets.

341. Regulated markets have been in operation for some time in Madras, C.P., Bombay, Hyderabad, Gwalior, etc. and they have been responsible for bringing about a number of reforms. The legislation in the different Provinces and States however follows different patterns and does not cover the whole field. In Madras, the Act refers only to commercial crops which are defined as cotton, groundnut and tobacco. In Bombay, Sind and Punjab, the application of the Act is restricted to specified commodities. In some cases, the Acts are extended only to particular municipal areas and result in the diversion of trade to neighbouring unregulated markets. The licensing of premises for purchase and sale outside the market yards is also permitted in certain cases and it renders control over the activities of traders more difficult. The facilities provided by the markets vary from place to place and Province to Province and in many cases, sheds suitable for trading and godowns for storage are not available. The representation of the growers on the market committees also varies from Province to Province. In Madras, it is not specified in the Act and is left to the discretion of the Provincial Government, while in Bombay, it is laid down that it shall not be less than one-third of the total membership. The legislation in Central Provinces, N.W.F.P., Hyderabad, Baroda and Mysore provides that the growers shall have not less than one-half, while that in the Punjab provides that they shall have a little more than one half of the total number of seats. In spite of the defects in the existing legislation, it has succeeded to some extent in abolishing unauthorised trade deductions, fixing brokerage and commission charges at reasonable levels, popularising standard weights and measures, and arranging for the arbitration of disputes and the supply of up-to-date information.

342. The experience is thus encouraging and it is now time that comprehensive legislation should be passed in all the Provinces and States, establishing regulated markets for all agricultural commodities in all market towns. The market committees should provide all the facilities required for trading, licence the traders, dealers and middlemen of the area and require them to conform to the conditions laid down. Strong action should be taken to prevent unwarranted deductions by unscrupulous traders and intermediaries. The constitution of the committees should provide for effective representation of the growers which should, in no case, be less than one-half of its total membership. The area of operation of the committees should be carefully defined so as to prevent evasion.

343. The regulation of markets on these lines will provide a much needed corrective and it will create conditions within which the cultivator may expect a fair deal. The ultimate interests of the cultivator however lie in the development of co-operative marketing. It is only when cultivators join hands, pool their produce, and grade and process it before sale, that they can obtain a fair return. This is the only way in which small-scale farmers can secure, to some extent, the advantages of large-scale production. While marketing on a co-operative basis is being practised to some extent, it is still in its infancy and the produce marketed through co-operative societies amounted in 1939-40 to only Rs. 11.4 crores. We understand that the Co-operative Planning Committee has chalked out a detailed plan for the development of co-operative marketing, and hence we do not make detailed recommendations on this subject.

(ii) Co-operative marketing.

344. While the above measures will strengthen the position of the cultivator in his dealings with whole-salers and other trade intermediaries, they may not prove equally effective in cases where the cultivator is obliged to part with his produce to the local money-lender or land-owner from whom he may have obtained credit. The local money-lender usually combines the business of lending money with that of trading in village produce and his advances to the cultivator are usually made on condition that the produce is sold to him at a low price. The money-lender or the land-owner who make the advance have usually at the back of their minds the hope that the cultivator, harrassed by the high rate of interest that he has to pay and the low price that he receives for his produce, may eventually be induced to part with his land to them on favourable terms. We realise that the village money-lender plays and will continue to play an important and useful part in the credit structure and that the rates of interest charged, though they may appear excessive, are to some extent justified by the high degree of risk that characterises the business. He must not however be free to abuse his position and exercise undue influence over the cultivator to prevent him from selling his produce in the open market. It is the very essence of our proposals that the cultivator should be assured a reasonable income in order to provide him adequate inducement to expand his production, and it is necessary to secure that this is in no way rendered difficult by his contractual obligations with financing agencies. We therefore recommend that for any produce which the money-lender or the land-owner or any other party may take over in repayment of the loans advanced by them, they should be

Sale of produce to the money-lender.

required to pay a price which will in no case be lower than the minimum price fixed ; and in any suits that may arise out of such transactions, the courts should interpret the contract on this basis.

Regulation of money-lending.

345. In addition, it is necessary to place the money-lending business on an equitable basis and require it to conform to adequate standards of efficiency and honest dealing. Even though we envisage in the future a wide expansion of the co-operative movement, we realize that the private money-lender will always be the most important source of credit in rural areas. The indebtedness in rural areas is essentially a problem of debt owned to individual money-lenders as distinguished from institutional agencies, and this has been acting as a dead-weight against many improvements in agriculture. Though a substantial reduction in debt has taken place during wartime in most Provinces, it is doubtful whether small holders as a class have benefitted to any material extent. While past debts may have been scaled down on account of war-time prosperity as well as of debt relief and adjustment legislation, considerable short-term and long-term credit will be required in the future for purposes of land improvement. It is therefore a matter of urgent importance to regulate the business of money-lending by a system of licensing. The money-lenders should be required to accept specific obligations relating to maintenance of accounts, rates of interest charged on different types of loans, etc., as a condition of the licence. The Punjab Registration of Money-lenders Act of 1938 provides a suitable model for such legislation.

Agricultural finance.

346. In addition, an alternative agency to the money-lender should be set up for providing credit to the cultivator. As the Agricultural Finance Sub-Committee state in their report : " there is little doubt that if every agricultural producer, who had need of raising funds could approach an agency other than that of the private money-lender and be sure of obtaining for all reasonable purposes finance on reasonable terms, the charges made by the money-lender and methods of business adopted by him would immediately change for the better to an appreciable extent." In pursuance of this idea, the same sub-committee have recommended that in Provinces where the co-operative credit societies are unable to meet the needs of the cultivators, separate agricultural credit corporations should be set up to provide all types of agricultural credit. As regards long-term credit, it has recommended that in Provinces where land mortgage banks are not already in existence, the corporation

should, after old debts are adjusted, lend money against mortgage for purposes such as purchase of durable assets and improvement of land. As regards medium-term credit it has recommended that it should be granted against a specific charge on the equipment or chattel purchased out of the loan, reinforced by collateral mortgage. The implementation of the recommendations of the Agricultural Finance Sub-Committee may be reasonably expected to meet every type of financial need of the cultivator.

Payments made by the cultivator.

347. Besides the price that he receives for his produce, the net income of the cultivator also depends on the payments that he has to make in the form of land revenue and rent. It is the balance accruing to the cultivator after all claims are paid that is significant as an inducement to the cultivator to increase his efficiency and it is therefore important to maintain land revenue and rents at a reasonable level. The increase in the income from land expected from a policy of scientific agriculture and remunerative prices will initiate a tendency towards increasing revenue charges and rents in the future. The State is entitled to some benefit through increased land revenue in view of the large expenditure of public funds by it for assisting agricultural development. Some increase in rent may also be justified so that the investor in land may not be at a disadvantage compared to investors in industrial assets. But such enhancements in revenue charges and rents should be regulated on a fair and equitable basis so that the incentive to the cultivator to increase his efficiency and expand his production should be fully maintained.

Land revenue.

348. At present, the system of land revenue assessment shows wide variations in different parts of the country. The most important is the major distinction between zamindari, ryotwari and mahalwari systems. Under the zamindari system, the unit of assessment is the village or the estate and the land revenue is a fixed sum payable in perpetuity or for a term of years on the principle that the State is entitled to a share of the rental. The share of the State varies between 9/10th and 10/11th of the rental in Bengal, Bihar and Orissa and between 1/3rd and ½ of the rental in Madras. Under the ryotwari system, the field is taken as the unit of assessment, and the land revenue is usually based on the 'net produce'—a term which has different connotations in different Provinces. In Madras, the net produce is determined at each Settlement which usually takes place once in 30 years, by estimating the money value at the prices prevailing during the preceding 20 years of the normal yield for each type

of soil assessed after making suitable deduction for seasonal variations, unproductive areas, costs of cultivation, etc. The share of the Government may be up to 50% of the 'net produce'. Under the Mahalwari system, the assessment is based on 'net assets', which are defined as the estimated average annual surplus produce of an estate after deducting the expenses on account of cultivation. The estimate of surplus produce is framed by taking into account the actual share of the produce received by the landowners. The result is that 'net assets' are calculated on landlords' rentals and cultivators' profits. The maximum demand of the Government was originally fixed at 1/2, but was subsequently reduced to 1/4th.

349. It will thus be seen that there is no uniformity either in the basis of assessment or in the proportion claimed by Government. The Taxation Enquiry Committee, 1929 (Report, p. 85) make the following remark in this connection: "The basis of assessment is defined under present arrangements in a variety of ways as the net produce, the net assets, the economic rent, the rental value and the annual value. Sometimes two or more of these mean the same thing, sometimes different meanings are attached in different places to one or the other. The original settlements which were based on a great variety of factors, such as crops and soil values, and the expenses of cultivation, have been replaced by resettlements, which are based on prices and general economic factors. In carrying out these resettlements, an increasing degree of importance has been given to annual value as ascertained by records of leases and sales and other similar factors."

350. Sir Manilal Nanavati and Mr. J.J.Anjaria, in "The Indian Rural Problem", indicate the directions in which reform of land revenue may be brought about, as follows*: "Land revenue ought to be, whatever it may have been in the past, a share claimed by the State with due regard to the taxable capacity of the party paying it; it must be levied in accordance with the well-known canons of fair and equitable taxation. This implies, firstly, that uneconomic holdings should be exempt from taxation; secondly, that the taxation on land should be on the principle of progression, and thirdly, that there should be an elasticity about its burden as well as procedure in view of diverse climatic and price factors".

*The Indian Rural Problem, Second Edition, pp. 110-111.

351. Efforts have recently been made by some of the Provinces to improve their systems of land revenue. The Bombay Land Revenue Code (Amendment) Act was passed in 1939. This Act provided that 'standard rates' for each group of lands should be so fixed that the aggregate assessment on it should not exceed 35% of the previous five years' rental value. The Punjab has tried to make land revenue elastic by correcting the revenue payable in the light of the relation of the average price to the computed price during the preceding two years. The revenue payable is also correlated with the ability of the tax payer to bear the burden on the principle of the income-tax instead of levying a fixed charge on a given piece of land, irrespective of the owner's economic position. The Punjab Land Revenue Committee has observed in this connection, "The one most consonant with modern methods of taxation would be to levy a special tax upon agricultural income, which is exempt from ordinary income-tax. This has just been done in Bihar, and if it were done in the Punjab the income-tax system would furnish the necessary analogy and model. Each landowner would be separately assessed according to whatever rates were imposed, and assuming rates graduated according to his income, his non-agricultural income would presumably be taken into account for determining the appropriate rate". In Bengal, the Bengal Land Revenue Commission recommended the imposition of a tax on agricultural incomes, and a tax has accordingly been imposed under the provisions of the Bengal Agricultural Income Tax Act, 1944; it lays down different rates for joint families, rulers of States, companies, firms and other associations of individuals. Assam and Travancore also levy agricultural income-tax on a progressive basis, and Madras contemplate the imposition of such a tax in the near future. In Sind, a sliding scale of land revenue assessment based on the average market prices of the season has been adopted for lands cultivated with wheat, rice or cotton.

352. We are not in a position to make detailed recommendations regarding the reform of the land revenue system. What we are concerned with is to emphasise the need for fixing land revenue in a manner which will give sufficient incentive to the cultivator to undertake agricultural improvements. In this connection, we are of opinion that the introduction of elasticity into the system, firstly, by linking the assessment with the price-level and other economic factors and secondly, by the correlation of assessment and the ability to pay on the principle of the income-tax may provide useful lines of approach.

Systems of tenure.

353. The system of tenure and the terms on which the land is held by the cultivator are also of decisive significance. The systems of tenure prevalent in the different parts of the country can generally be grouped into three major categories—the permanently settled system, the temporary settled system and the ryotwari system. The three systems have one feature in common *viz.* the occupancy right-holder who holds his land on a permanent and heritable tenure with rights of transfer. Under the ryotwari system, the occupancy right-holder pays land revenue to the Government while under the other two systems he pays rent to the proprietor of the estate in some cases directly and in other cases through a number of intermediate right-holders. The occupancy right-holder does not always cultivate the land himself. He may lease it out to tenants-at-will who have no permanent rights in the land. The tenants-at-will are often not without lands of their own and they work as owner-cultivators in some fields and tenant-cultivators in others. The terms on which the tenant-cultivator holds the land from the occupancy right-holder vary from Province to Province. In the Punjab and Sind, the great majority of them pay rent in kind (batai) and this generally amounts to half the produce. In Bengal, under the Barga system which holds good over one-fifth of the cultivated land, the crop is shared equally between the occupancy right-holder and the bargadar, though the Bengal Land Revenue Commission recommended by a majority that the rent should be limited to one-third of the gross produce. In Bihar, the non-occupancy ryots pay various kinds of produce-rents, and under the batai system, the tenants' share varies from one-half to one-third. In Orissa, cash rents are a common feature but a considerable area is also held on produce-rent. In Madras, under the "Varam System", the tenant pays a share of the crop as rent whereas under the "Kuthagai" system, he pays a fixed sum in cash or a fixed amount of produce. In Bombay, lands are leased on a crop-sharing rent, with the result that if the tenant sows improved seed or utilises manure or employs extra labour to improve the land, then half of the increased production so obtained at his cost goes to the landlord. The enactment of the Bombay Tenancy Act in 1941 has however improved the position of the tenant to some extent.*

Reform of tenure.

354. Three lines of approach are generally suggested towards the solution of the problem of reconciling

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*Famine Enquiry Commission—Final Report.

existing proprietory rights in land with requirements of efficiency. These are the conversion of rents in kind into money terms, the regulation of rents and the reconstruction of the legal fabric of the land system.

355. Firstly, it is suggested that an effort should be made to fix rents in money instead of in kind. The payment of rents in kind, whether wholly or partially, was of some advantage to the cultivator in periods of falling prices, but under a system of fixed prices and scientific agriculture, it will only operate to the benefit of the rentier who will receive increased rents without having done anything to deserve it. The conversion of the rent fixed in kind into money terms on the basis of the average price of the produce over a long period of years, good and bad, will provide an assured income to the rentier at the level to which he has been accustomed in the past, and will leave to the cultivator any increments that may result from his efforts at improving the efficiency of production.

356. Secondly, once the rents are fixed in terms of money, they should continue to remain unchanged for a specified period, and changes may be permitted thereafter only on application to and consideration by a tribunal specially appointed for the purpose. This tribunal should take into account all the circumstances that may have contributed towards the improvement in the productive capacity of the land and then decide whether any enhancement in the rent is called for. While the cultivator should be able to retain permanently as large a share of the increment resulting from his initiative and enterprise, the probable consequences of the refusal of a share in the increment to the land-owner cannot be ignored. Investment in land and investment in industry are competitive, and the value of land has to be permitted to rise to some extent with increase in its productive capacity in the same way as the value of shares rises with increased profitability of industrial concerns; otherwise, investment in land may receive a set-back. In considering applications for enhancement of rents, the tribunal should therefore allow a certain share of the increased productivity of the land to the land-owner, the major share however being left to the cultivator. The Bombay Tenancy Act of 1941 is an example of this type of legislation. It lays down that a landlord cannot resume land from existing tenants for a period of at least 10 years and cannot increase the rent except when he improvements are carried out at his expense.

357. Thirdly, while these interim measures are being taken, long-term adjustments may be made in the systems of tenure. As Tawney has pointed out, even in the Europe of the ninteenth century, "the reconstruction of the legal fabric of the land system preceded the modernisation both of productive technique and of the business side of farming; nor in the absence of the first, would the two last have been possible". Since the beginning of this century, agrarian laws have been passed in most countries, their general principle being that "the basis of every nation must be the peasantry and the latter's welfare depends upon the distribution of the soil which its members till". The measures taken have varied in scope according to the requirements of the situation and the pressure of public opinion, but the general pattern has been similar. They have included restrictions on the transfer of land, protection of farm properties from attachment, prohibition of sub-division and fragmentation of land, fixation of rents at low levels so that non-cultivating landlords may have no incentive to hold land, and purchase of large estates as a preliminary to their break-up and distribution amongst small cultivators. Legislation on similar lines directed to establish the cultivator as the owner of the land which he cultivates or alternatively as a tenant holding the land directly from the State has been suggested in India as well for some time past. The Bengal Land Revenue Commission have recommended the purchase of the interests of the land-lord by the State and the replacement of the Zamindari system by a system which will bring the cultivator into direct relation with the State. The Famine Enquiry Commission have made two important suggestions, one being the organisation of cultivators of small farms into multi-purpose co-operative societies so that they may help to "promote collective bargaining between large land-holders and their tenants and establish healthy tenancy conditions" and the other being the organisation of tenants into co-operative rent societies, which should 'take on lease land from large land-holders and let it out to their members'. Sir Manilal Nanavati has pleaded in his minute of dissent to the Report of the Famine Enquiry Commission for outright abolition of the Zamindari system.

Importance of the tenant-cultivator.

358. We do not propose to enter into a detailed examination of the issues stated above, but wish to emphasise that from our point of view it is the tenant-cultivator who is the crux of the situation and it is his interests in particular that need to be safeguarded. It is he who takes the decisions as to what he should or should not grow, what

seed and manure he should use, and what improvements he should effect in the land. The occupancy right-holder, the holder of superior rights and the proprietor may often be absent; even if they are present, they may or may not take interest in the cultivation of land; and even if they do take interest, it is often likely to be negligible. Under these circumstances if they are permitted an undue share in the prosperity resulting from the efforts of the cultivator, he would have little incentive left to undertake measures of land improvement and adopt modern technique.

Obligations of the cultivator.

359. While the cultivator has the right to the assistance of the State in securing for himself a fair return for his enterprise, he also has the duty to pay a fair wage to the labour he employs and to maintain adequate standards of management. If the State takes necessary measures to maintain prices at a reasonable level and to secure that the cultivator retains as large a share out of the prices as possible, the State must also undertake as a corollary the obligation to protect the agricultural labourer from exploitation and to exact adequate standards of farm management.

Agricultural labour.

360. The problem of protecting agricultural labourers is now of some urgency. The number of agricultural labourers is increasing owing to sub-division of holdings, mortgage and transfer of land, decline of cottage industries and other causes. The exact number of landless labourers in the country is difficult to estimate. In Madras, their number has increased from 345 per thousand persons engaged in cultivation in 1901 to 429 per thousand in 1931 and it has presumably risen further since then. In Bengal, the landless proletariat increased from 1.8 million in 1921 to 2.7 million in 1931. Taking the country as a whole, the number of "landless day labourers" which was 7½ million in 1882 increased to 21.5 million in 1921 and 33 million in 1931*. The number of landless labourers alone will not however give a correct picture. A large number of cultivators who hold small pieces of land have to seek supplementary employment as labourers elsewhere but they are not included in the definition of landless labourers. In many cases, cultivators who have relinquished their holdings to non-cultivating money-lenders and landlords and become their tenants on a crop-sharing or rent basis also have to supplement their income by working as labourers on the farms of others.

*Census Report.

The existence of a large proletariat who depend for their livelihood upon the wages that they are paid makes it essential that special measures should be taken to secure that the wages paid are high enough to enable them to maintain a reasonable standard of living.

361. The level of agricultural wages varies from Province to Province and they are paid sometimes in cash and sometimes in kind. In the U.P., the labourers receive one-thirteenth of the barley crop and one-sixteenth of the wheat crop, while in the Punjab one-tenth of the grain crop is the custom. In Bengal, annual wages vary from Rs. 8/- to Rs. 24/- while in Bombay, they range from Rs. 25/- on unirrigated land to Rs. 31/- on irrigated land. The level of wages bears some relation to the level of prices, but increase in wages usually lags behind increase in prices. The following figures for Bengal given by Prof. Radha Kamal Mukerjee in his book "Land Problems of India" illustrate the position.

Daily Wages.

	1842	1852	1862	1872	1911	1922
Field labour without food (in annas)	1	1½	2	3	4	4 to 6
No. of seers of rice per rupee.	40	30	27.1	22.7	15	5

Between 1842 and 1922 the price of rice rose 8 times, but wages rose only between 4 to 6 times; real wages thus fell by 20 to 50 per cent.

362. The note on Agricultural Wages, published in the Appendix of the Famine Enquiry Commission Report describes the views of different Provincial Governments regarding the future trend of wages in relation to prices. The Punjab Government apprehend that agricultural wages may fall too low in the wake of demobilisation, and consider legislative action for enforcing minimum wages to be necessary. The Orissa Government also are of the view that for some time after the war is over, the supply of labour would be greater than the demand and wages may not keep pace with prices even if these latter are regulated. The Provincial Governments have generally emphasised in their replies (*a*) that the rise in agricultural wages has been due not only to the rise in food-grain prices but also to the rise in prices of other essential commodities and to large demands for labour in war industries and defence works; (*b*) that there will

be a time lag before wages completely adjust themselves to regulated prices; and (c) that in any case, wages will remain at a much higher level than before the war owing to increased demand for labour from industries.

363. We are of opinion that though wages have remained at a comparatively high level during the war period, the position will change with demobilisation of armed personnel and slowing down of the tempo of industrial production. In the post-war period, after developmental plans have got into stride, demand for labour will increase but in the interim period, there is the danger that agricultural wages may remain depressed and fall more rapidly than the fall in prices because of the unorganised character and consequent lack of bargaining strength of agricultural labour. The existence of a large class of landless labourers living on the margin of subsistence adds to the inefficiency of agriculture. It is therefore necessary that the State should intervene on behalf of agricultural labour and secure for them a minimum wage which will at least cover their cost of living.

364. Regulation of agricultural wages is part of normal State policy in many countries. In the United Kingdom, the system of regulation was established in 1924 by the Agricultural Wages Regulation Act which authorised the Minister of Agriculture to set up an Agricultural Wages Committee for each country and the Agricultural Wages Board for England and Wales. The Agricultural Wages Committee of a county consists of an equal number of representatives of the employers and workers in that county and two additional members appointed by the Minister of Agriculture, the chairman being elected by the Committee itself. These Committees are charged with the duty of fixing minimum rates of wages for workers employed in agriculture, both for time-work as well as for piece-work. These minimum rates may be different for different areas and for different types of employment. It has been specifically laid down that in fixing the minimum rates, the Committees "shall secure for the able-bodied man, such wages as are adequate to promote efficiency and to enable a man to maintain himself and his family in accordance with such standards of living as may be reasonable in relation to the nature of his occupation". The Committees have power to provide for payments in kind and to fix the cash equivalents at which such payments may be reckoned. They may also regulate the hours of employment and secure, as far as practicable, a weekly half-holiday for workers. The Agricultural Wages Board is responsible for securing

that the rates of wages as fixed by the County Committees are actually enforced in practice. An employer who employs a worker at less than the minimum rate of wage is liable, on summary conviction; to a fine not exceeding twenty pounds in respect of each offence, the burden of proof lying on the accused.

365. Similar legislation has been passed in other countries and minimum wages have been secured either by State regulation or by collective bargaining. In Australia, an arbitration court determines the smallest wage-income compatible with civilised life and permits increases over and above this wage for special skill. Not all agricultural workers however are organised enough to make use of this system of collective bargaining and it is availed of only by shearers, fruit harvesters and workers on sugar plantations and cotton fields. In New Zealand, the wages of shearing workers alone are fixed by the arbitration court because they are the only effectively organised group amongst agricultural labourers, and wages of other groups of workers are regulated by the State. In New Zealand, minimum standards of housing accomodation are also prescribed for agricultural workers and legislation also covers other items such as holidays with pay, hours of work etc.

366. While legislation relating to conditions of work, housing, holidays with pay etc. is important, first priority should be given to legislation for fixing minimum wages for agricultural labourers. Agricultural labourers, being spread over a large number of villages all over the country, have not yet developed sufficient cohesion and are not organised through trade unions. Collective bargaining is therefore not possible in the present stage of development and even State regulation is not free from difficulty. We feel confident however that the enactment of minimum wage legislation, coupled with the spread of education amongst the rural masses, will secure the just rights of agricultural labourers.

367. The minimum wages should be fixed by district committees consisting of representatives of employers and workers in equal proportions, and having an impartial chairman appointed by the Government. The committees should make their decisions after giving due consideration to the costs of living and the level of agricultural prices. They should permit payment of wages in cash as well as in kind. The rates of wages may be fixed separately for adults, women and children, for different operations and for different localities.

368. The State should also exact adequate standards of management and optimum utilisation of land from the farmers. The inherent fertility and productivity of land is a national heritage and the assurance of remunerative prices to the cultivator will be justified only if it promotes its most efficient use. Farm management and land utilization.

369. The State should make available to the farmers free technical advice for this purpose. There has been considerable progress in recent years in the sphere of agricultural research but much of it remains to be translated into farming practice. While research should continue and should be expanded, it is more urgent to secure the rapid utilisation of its results. There should therefore be set up a permanent machinery which will maintain liaision between the research stations on the one hand and farmers on the other, through a wide network of expert technical staff. The nucleus of such a machinery already exists in the agricultural services in the Provinces and States and in the advisory staff of the Central Government. We recommend that these services should be expanded to a degree where it will be possible for any farmer to obtain expert advice on his own problems without difficulty and delay.

370. Advice by itself will serve little purpose unless facilities exist by which the advice can be put into effect. In the present conditions of agriculture where private agencies do not function to any significant extent, the State should take upon itself the responsibility for organizing the supply of such facilities. The supply through a chain of depots of seeds and manures and of improved implements and mechanised equipment on hire, the sinking of wells, bunding and land reclamation measures, etc. are among the many services that the state can render. These services should be provided at cost or on a subsidised basis where necessary.

371. In certain cases it may also be necessary to give, as in other countries, direct subsidies in order to stimulate the production of specified crops or to bring under cultivation marginal or derelict land. We have already discussed the importance of such subsidies in Chapter III.

372. If however in spite of these measures of assistance, adequate standards of management are not maintained and optimum utilization of land not secured, it will be necessary for the State to undertake measures to compel the recalcitrant farmers to conform to the

desired standards of efficiency. We recommend therefore that the State should obtain reserve powers by necessary legislation, to give directions to farmers pertaining to the management and cultivation of their farms and to secure their compliance. The directions may refer to methods of cultivation, use of improved seed and manures, economic use of irrigation water, land improvements such as bunding, and other matters which have a bearing on the efficiency of production. If these directions are not carried out by the farmers, then the State should use its reserve powers to secure their execution by any means that may be expedient. In cases of continuous non-compliance, the State should acquire the rights in the land after payment of fair compensation to the farmer in question and lease it to other cultivators on a tenancy basis, giving preference to landless labourers. Before a tenancy is terminated or a land owner is dispossessed however, he should have the right to appeal to an independent tribunal against the decision of the executive authorities. It may be mentioned that similar powers have been recently obtained by the Government in the U.K.

Size of holdings.

373. Another important aspect of agriculture in which there is need for positive action by the State is the consolidation of fragmented and uneconomic holdings. Although statistical information about holdings is incomplete, enquiries made in certain Provinces show that its average size is not greater than three to five acres. The enquiries made by the Bengal Land Revenue Commission in typical villages in all the districts of Bengal revealed that the average holding was about 4.4 acres. In the U.P., the average is believed to be about 6 acres. In Madras, the Land Revenue Administration reports of 1936-37 show that the average acreage per *patta* (holding) in the Province was 4.5 acres. An enquiry made by the Punjab Board of Economic Enquiry in 1939, shows that the largest number of owners in the Province were in the group with holdings of between 1 to 3 acres. The Famine Inquiry Commission have stated that the replies received by them from the provinces indicate that the general tendency, with the one exception of Sind where the pressure of population has not yet been felt owing to the large increase during recent years in the irrigated area, is for the number of small holdings to increase. The immediate cause of the progressive decrease in the size of holdings is believed to be the division of the land of a common ancestor among his successors-in-interest.

374. It is generally believed that the small unit of production in Indian agriculture represented by the excessively small holding constitutes a serious handicap

to the adoption of improved agricultural technique. As Sir Manilal Nanavati has put it, "the cultivator, who lives on the margin of subsistence cannot be expected to possess the resources necessary for increasing out-turn of his crop by the adoption of improved farming practices requiring capital".* The evil has now reached such proportions that it can only be tackled by an intensive effort to increase the size to economic levels. Proposals for the amendment of the law of succession so as to abolish the right of partition of medium-sized holdings are usually objected to on the ground that it may disrupt the traditional pattern of society and may lead to an increase in the number of landless labourers. The only other remedy is to promote a change-over from individual farming of small holdings on a family basis to collective farming of the whole village on a co-operative basis.

375. Before changing over to co-operative farming, the most suitable type of organisation will have to be ascertained by carrying out experiments with different types, so that the merits and defects of each may be fully revealed. For instance, a co-operative farming society may confine its activities to certain specific purposes such as purchase of seed and manure, sale of produce, use of machinery, etc., leaving the members free otherwise to work independently as before. Or a society may acquire land and lease it to its members, who will be the tenants of the society and will pay a fixed rent for their holdings. The members may cultivate the holding independently though according to the general plan laid down by the society and take over the produce. A step further will lead to partial joint farming under which the members will cultivate their holdings themselves according to the crop programme drawn up by the society but will obtain finance from the society and sell their produce through it. Finally, full-scale joint farming may be organised, and the land and other resources of the members will then be pooled, farm operations carried out jointly under a common programme, the produce marketed jointly and the profits distributed among the members according to the land and labour contributed by each. After sufficient experience has been acquired to enable Government to form an estimate of the relative merits and defects of these different types of organization, an intensive drive for increasing the size of holdings to economic levels may be undertaken.

376. The measures which we have advocated above will not be effective until the man behind the plough

Education.

*Famine Enquiry Commission Report, p. 259

himself is educated and trained in the use of scientific technique. The illiteracy of the farmer operates as a handicap not only in regard to the ability to appreciate and absorb new techniques but also in the marketing of produce where he is at the mercy of intermediaries of various kinds, only too ready to trade on his ignorance. The extension to the villages of adult education suited to the rural environment is therefore a crying necessity. The crucial problem here is not only to bring knowledge to the door of the villager and convince him of the merits of the improvements recommended but to demonstrate to him on land in his own village that these improvements are within his means. With 700,000 villages in the country, this is indeed a colossal task. We do not envisage a substantial hastening of the tempo of this work without a radical change in the approach to the problem of village publicity and propaganda. This change involves the fullest use being made of the mobile cinema and the radio as media for publicity and instruction in all aspects of village welfare. We attach prime importance to the mobile cinema as a medium of instruction in virtue of the case with which it can collect the villagers who come in a mood ready to listen and to learn.

Representative committees.

377. While undertaking a programme of far-reaching measures of agricultural development, it is well to remember that the execution of this programme will ultimately depend upon the co-operation of the people which can only be secured through the organization, on a permanent basis, of channels for mutual consultation. Such consultation is rendered all the more necessary when the State is expected to possess coercive powers on a considerable scale which need to be used with restraint and without harassment. It is only when the programme is supported by public opinion that it can command willing acceptance and lead to fruitful results.

378. The organisation of local representative bodies have played an important part in the development of agriculture in the United Kingdom and in the United States of America. In England and Wales, the County War Agricultural Executive Committees mainly composed of farmers were of such assistance in securing an expansion of production during war-time that they are now constituted on a permanent basis. They work in close association with the national advisory services for the promotion of farming efficiency and act as the local agents of the Ministry of Agriculture in the exercise of its powers of control.

379. In the United States of America the farmer-committees have been playing a vital role in agriculture ever since the Agricultural Adjustment Act of 1933. Each County Committee consists of three farmers who are elected by the Community Committees, who are themselves elected each year by all farmers within the local administration area. The County Agricultural Extension Agent who represents the Federal Government is an *ex-officio* member of the County Committee. There are thus more than 3000 County Committees, and 29,000 Community Committees operating in the U.S.A., providing more than 9000 County Committee-men and 87000 community committee-men to assist in developmental activities. The operations of the County Committees are linked together by means of a State AAA Committee, consisting of three to five farmers, who are residents of the State and are appointed by the Secretary of Agriculture. The State Director of Agricultural Extension is an *ex-officio* member of the Committee. The State AAA Committees are directed by the Central Office of the Agricultural Adjustment Agency through its regional divisions.

380. The committee system has thus been utilised on a large scale in the United States for the purpose of democratising the making and execution of agricultural policy. Since the committee-men are elected annually by their farmer neighbours, they are directly responsible to the farmers of their community and county and they are liable to be replaced at the next annual election if they do not administer the programme satisfactorily. They receive pay for the time they devote to the programme which along with other operating expenses of the Committee is deducted from the funds made available for payments to farmers. The functions of these committees have gradually advanced from mere advisory functions to actual administration. These committees are responsible for explaining the provisions of the programme to farmers, determining individual goals and allotments, specifying conservation practices, certifying eligibility for participation in loans and other programmes, checking performance, and a wide variety of other tasks. They help, by their recommendations, to shape agricultural programmes in such a way that they will fit in with the needs of their own localities and thereby contribute largely towards the solution of the problems of farmers and consumers in the country.

381. We are of opinion that the committee system adopted in the U.K. and the U.S.A. provides us with a useful model to follow in our country. By organising

such committees in villages, tehsils, districts and Provinces and securing their co-operation in the planning and execution of developmental programmes, Government will create a favourable atmosphere for agricultural development. The problem of creating such organisations in the rural areas has already been examined at some length by the Famine Enquiry Commission and the Bengal Administration Enquiry Committee and we are in general agreement with their conclusions. We particularly draw attention to the warning of the Bengal Administration Enquiry Committee that " neither successive failures nor criticism should be permitted to deflect Government from its objective, the setting up in the villages of self-governing bodies ". We strongly recommend that these should be constituted not only in villages but also in the tehsils and districts and Provinces on a federal basis and they should represent different agricultural interests such as landless labourers, tenant cultivators, occupancy right-holders, landlords etc.

382. The State will then turn to them with confidence for their advice. These bodies should advise Government in the framing of policies and would also be of help in executing them wherever possible. These bodies should be represented on any policy-making authorities that Government may constitute in the sphere of agriculture and they should be the recognised channels for explaining Government policy to the countryside. In particular, when Government propose to issue directives or to compulsorily dispossess holders of existing rights, action should be taken only in consultation with the appropriate local organisations who may also be entrusted with the implementation of the decisions of Government in this respect where deemed necessary.

Conclusion.

383. It will be seen that a wide variety of ancillary measures are called for in connection with a price fixation policy. Not all the measures, however, are of equal importance from the point of view of assuring remunerative prices to the producer. For instance, the improvement of marketing, the reform of land revenue and tenure, and the promotion of rural education would still be desirable on general grounds even if a policy of price fixation were not adopted. Certain other measures, on the other hand, are more closely inter-woven with price policy. The regulation of moneylending, for instance, is necessary if the cultivator is to have the freedom to sell his crop to the State. Minimum wages for agricultural labourers have to be guaranteed if the benefits of price fixation are to be carried down to them. It is desirable

however to undertake all the different measures simultaneously so that as a result of their cumulative effect, there may be prepared the proper atmosphere for the introduction of a policy of price fixation. Such a policy can only succeed, when it is a part of a wider programme of agricultural development.

Conclusion

384. Our main task in this Report has been to recommend the principles on which producer's prices should be fixed for different types of agricultural and animal husbandry produce and the means by which such prices can be made effective and an assured market provided. While we therefore naturally concentrate on price policy, we have always kept before us the wider objectives which this policy is intended to promote, *viz.* expansion of agricultural production with a special emphasis on food production in particular, and improvement in the standard of life of the people. For this reason, we have also recommended a number of ancillary measures that need to be taken to reinforce the price policy.

385. We have refrained from recommending particular levels of prices as the objective to be aimed at. The general economic situation is still in flux and the transition from war to peace has only just started and is far from complete. The position regarding our international relations, our balance of trade and the parity between our internal and external prices has not yet clarified itself. The price level in India has also risen to a greater extent than that in certain other countries with whom we have close commercial relations, and there is considerable uncertainty regarding the levels at which Indian prices and international prices will ultimately settle down. When the whole future is thus uncertain, it is not feasible to suggest with confidence any particular level for the fixation of agricultural prices in India. We have, in fact, considered it inadvisable to do so, as any figures that may be recommended assume a degree of authority which is unwarranted by the limited assumptions on which they could be based. It may well be that they have no relevance to the shifting balance of forces. We have therefore thought it more useful to recommend a procedure for fixing and enforcing minimum and maximum prices which can be followed in any set of circumstances, rather than stress any particular level of prices as such which cannot but be conditioned by a given set of circumstances.

386. The combined effect of our recommendations will however reduce the range of fluctuations in the long-period trend of prices. Firstly, during the continuance of the present regime of controls, minimum prices will be fixed at a level equal to fair parity prices and will thus give stability to prices at a remunerative level. Secondly, in the

post-transition period, though due to practical considerations minimum prices may be fixed at levels below fair parity prices, such modification will be related to well-defined factors and some of us even lay down a maximum limit to such modification. Thirdly, even if a reduction in agricultural prices is called for as a preliminary to any general reduction of prices undertaken as a matter of State policy, such preliminary reduction in agricultural prices will not exceed a specified maximum. Finally, minimum prices will under no circumstances be permitted to fall below a specified rock-bottom floor, at any rate during the next five years in the first instance. These measures taken together will prevent any unduly wide fluctuations in prices.

387. It may be thought that we have provided for many contingencies which are unlikely to arise in the near future. It is often believed that the prevailing global scarcity of supplies will continue for many years and that any apprehension of a fall in agricultural prices is therefore unwarranted. In our opinion, this belief is contrary to the facts of the case. Although agricultural prices may be maintained for some time to come, and forces making for a depression temporarily held in check, it is hardly to be expected that the general scarcity conditions now prevailing will last for more than a few years. The decline in agricultural production during the recent war in Europe has been estimated to be of somewhat less magnitude than that during the war of 1914-18. During World War II, greater attention was paid to the maintenance of farm production than during World War I and in certain countries, there has been a substantial increase in production during the war years. It is only in draft power in machinery and in the supply of fertilizers in enemy and enemy-occupied countries that the situation today compares unfavourably with the situation at the end of the war of 1914-18. On the whole, therefore, agricultural rehabilitation after World War II is likely to be quicker than after World War I; and even then, the boom had lasted for less than three years. Even if the greater dependence of agriculture on machinery and fertilizers today may retard the rate of recovery, it is unlikely that full recovery will take longer than another four to five years at the most. In fact, the time required for a return to normalcy may be even less, and it would be most unwise to rely upon an automatic maintenance of prices at remunerative levels.

388. We are aware of the general dissatisfaction at the working of economic controls during the war and the

anxiety of the public for their relaxation and ultimate abolition at an early date. The administrative machinery also gave room for a great many abuses and it has been the target of considerable criticism. Some of the abuses were due more to inexperience than to any inherent defects in the machinery and will disappear in course of time. With increasing association of public opinion with the Governmental machinery we may also hope that other abuses will be kept in check. The public too have become accustomed during the war to a greater measure of administrative interference and may look upon it with less hostility. It has to be recognized that controls are after all a necessary concomitant of any planning and though efforts should be made to avoid undue restriction of individual freedom, it cannot altogether be avoided. When controls are directed towards accepted objectives and are administered with discretion and moderation, they will not evoke serious opposition.

389. We are therefore of the view that immediate steps need to be taken to implement the price policy recommended by us and to set up the nucleus of the necessary administative machinery. An administrative machinery cannot be built overnight and it will take some years before it can be fashioned into an effective instrument. We are fortunate in having already in existence such a machinery in the Central, Provincial, and State Agricultural and Food Departments and their ancillary offices. It has had considerable experience of production campaigns, price fixation, procurement, movement and distribution, in so far as food-grains are concerned. Since it was built up to cope with problems created by scarcity conditions during the war, the scope of its present activities will be curtailed and its expert and trained staff disbanded as war conditions gradually disappear. There is the danger then that when the anticipated slump supervenes, we may be left with inadequate machinery to counteract it. We are of opinion that the existing machinery which was created for handling problems arising out of scarcity should therefore be retained and adapted for handling problems arising out of conditions of abundance.

390. In formulating our recommendations, we have had constantly in view the limitations imposed by administrative personnel and financial resources and the necessity of co-operation between the Centre, Provinces and States. We have already emphasised the importance of utilising the experienced personnel available in the Agricultural and Food Administrations in the country.

Financial resources will provide a more difficult problem because State activity will expand not only in the field of agriculture, but also in other fields. We realise that competition for finance will be very keen in the immediate future and we have therefore adjusted both the objectives of policy and the machinery for its execution to what we consider to be practicable from a financial point of view. The tempo of development will also depend upon the degree of co-operation that ultimately emerges in the working of the programme between the different administrative units and hence we have recommended that it should be implemented through Provincial and State Governments as far as possible, utilising their normal channels of administration. As the whole programme gathers momentum and the various measures adopted have their cumulative effect in raising the national income, it will be possible to expand its scope of operation. The programme of action proposed by us is flexible and is designed to begin with modest and limited aims, advancing in gradual stages to its final objective.

391. In conclusion, we wish to reiterate that the recommendations made in this report should be considered in the context of a general drive for agricultural and animal husbandry development. We have naturally concentrated our attention on the problems specifically referred to us for consideration, but we are fully conscious of the fact that price policy is closely related to other aspects of development such as improvements in marketing, provision of agricultural finance, reform of land tenure, establishment of subsidiary industries and adoption of technical and scientific improvements in farming. We have referred to these at relevant places in our report and have devoted a chapter to the measures that we think are ancillary to price policy. We have refrained from dealing more exhaustively with these problems because they have been dealt with at length in the Memorandum of the Imperial Council of Agricultural Research and the report of the Famine Inquiry Commission on which we have drawn freely and the reports of the Food-Grains Policy Committee, the Agricultural Finance Sub-Committee and the Co-operative Planning Committee. The responsibility for over-all co-ordination of the recommendations of these different Committees rests with the Policy Committee on Agriculture, Forestry and Fisheries. Our report should therefore be considered along with those of other Committees on connected problems, so that all of them taken together should provide the basis of a comprehensive plan of agricultural development for India.

V. T. KRISHNAMACHARI, *Chairman.*
HOSSAIN IMAM.
FAZAL. I. RAHIMTOOLA. *
N. R. SAMIAPPA MUDALIAR.
L. C. JAIN.
ROGER THOMAS. *
P. M. KHAREGAT *
V. NARAHARI RAO
B. N. ADARKAR. *
N. G. ABHYANKAR.
B. K. MADAN.

W. R. NATU,
Secretary.

JAIPUR.
Dated the 25th October, 1946.

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*Signed subject to the notes appended.

Note by Sir Pheroze Kharegat.

1. The report of the Committee represents the largest measure of common agreement that could be reached on a difficult and complex problem. In trying to arrive at a more or less unanimous report, some ambiguities have crept in and certain points need to be clarified and elucidated from my point of view. Hence this note.

2. 1. The most important of these points is the question of the price to be fixed. The committee have contented themselves with the laying down of a formula. This to my mind is not enough for immediate action.

2. 2. I wish to make it perfectly clear that I visualise a price of Rs. 7/8/- minimum and Rs. 9/8/- maximum per maund of wheat at Lyallpur at present and in the next few years. The prices of other commodities should be adjusted to this basic price, bearing in mind normal or reasonable differentials.

2. 3. That the recommendation of the Committee as it stands is ambiguous will be apparent from what has transpired. At one of the meetings of the Committee, the Chairman enquired what the formula would result in. From the reply given by one of the members, I had the impression that the formula recommended by the committee worked out in practice to a price of about Rs. 8/- per maund for wheat at Lyallpur. As this figure was more or less what I had in mind, I did not pursue the matter further.

2. 4. This figure is however not being mentioned in the report. Moreover it appears that if certain mysterious "adjustments" are made, the figure will drop to Rs. 6/8/-. Nor is it unlikely that, on the basis of some other assumptions as regards allowances to be made and weightages to be given, the figure may even be reduced to Rs. 4/8/- or less.

2. 5. In fact we do not know where we stand with this formula, and what really it will mean in practice when the figure is actually worked out by methods unintelligible to the layman. Hence I consider it essential to make it absolutely clear as to what I accept in this connection, *viz.*, a price of Rs. 7/8/- minimum and Rs. 9/8/- maximum per maund of wheat at the wholesale market at Lyallpur, with other prices in conformity therewith.

3. 1. It is perhaps advisable to state at this stage the grounds on which the figures suggested are justified and to answer the objections that may be raised against them.

3. 2. As the committee have recognised, the logical method is to base prices on costs of production and costs of living. Unfortunately, the only statistics we have about costs of production are in connection with an enquiry carried out by the Imperial Council of Agricultural Research during the depression. The cost

ot production of wheat was worked out for the irrigated and unirrigated part of the Punjab; the former occupies 6/10ths and the latter 4/10ths of the acreage under wheat. Applying weights accordingly the cost of production for the Punjab as a whole worked out at Rs. 2/11 per maund in those days. Since then prices have increased generally by 144% (*i. e.* the index number is 244). If the cost of production has increased proportionately, the cost at present comes to Rs. 6/9/- a maund.

3. 3. This figure for wheat is confirmed by a practical agriculturist in the Punjab who keeps full accounts. He has worked out that the bare costs of production of wheat (*i. e.* not allowing for interest on investment in land) come to between Rs. 6 and Rs. 7 per maund. The mean of these two figures, *viz.* Rs. 6/8/- is probably as correct a figure as we can expect. This may not satisfy economists, but gives a fair indication of the correct figure.

3. 4. A reasonable margin of profit must be allowed on this figure to enable the farmer to make a living. For this purpose under Indian conditions a normal procurement price of Rs. 8/8 cannot be regarded as excessive. A holder of 50 acres can live comfortably if he makes profit of Rs. 20 per acre and big farmers can even work at a smaller rate of profit. But in India the average holder has only 5 acres of land and he cannot make both ends meet if he also is allowed a profit of Rs. 20/- per acre as his income would be only Rs. 100 a year. The small holder needs two or even three times that figure as profit in order to enable him merely to exist. It is mainly because the foreign producer has a large acreage that he can afford to sell his produce at a lower price. Our small producer must be given a relatively higher margin of profit to enable him to carry on.

3. 5. Accordingly our prices will inevitably have to be higher than those elsewhere because the farmer with a small holding must have a larger profit per acre if he is to carry on with this work and enjoy a reasonable standard of life. His cost of production being Rs. 6/8/- a maund, the request for a normal purchase price of Rs. 8/8/-,with a minimum at Rs. 7/8/-and a maximum at Rs. 9/8/- is fair and reasonable.

3. 6. This in fact is the prevailing price. It has been arrived at by a process of trial and error and has been in force for 2 or 3 years. Most other prices have adjusted themselves to these figures and they have worked fairly. It is therefore suggested that they may be taken as the basis for price stabilisation.

3. 7. The main objection that will be raised is that in view of the uncertainty of world conditions government cannot commit themselves to such a price level. It will be pointed out that the price in Canada and Australia may be of the order of Rs. 4/8/- a maund. We cannot maintain a price which is 80% above that.

The reply is that we must adjust our prices to our own needs and conditions. We cannot allow the economy of the countryside to be upset in order to fall in line with the prices suitable for other countries. We must have a price which will encourage production and not discourage it.

3. 8. It may further be pointed out in this connection that the actual price of wheat before the war was abnormally low in the Punjab even relative to the prices of other commodities and well below the costs of production. Attempts to control prices first at Rs. 4/6/- and then at Rs. 5/- during the war completely failed and the prices of millets became higher than those of wheat. The present range of prices was arrived at by experience and represents the economic price under existing conditions.

3. 9 Another objection that may be raised is that the figures worked out for costs of production are not reliable. It is admitted that economic science has not advanced far enough to give us data which are reliable. But the suggestion put forward here is primarily based on broad general grounds, bearing in mind the cost of the articles entering into the costs of production and cost of living at different periods in the past.

3. 10. Yet another objection is likely to come from the financial side. It will be urged that if the general salary level is to be adjusted to a price of Rs. 8/8/- for wheat, there may have to be considerable increase in salaries. Actually however wages have now adjusted themselves more or less to this price level and if an attempt is made to lower wages, there is apt to be economic confusion.

3. 11. It will be argued that the price I have suggested will cause hardship to consumers in towns. The remedy lies in subsidising consumption.

4. 1. The next question that arises is how long the price should be maintained at the level proposed. The Committee have recommended that the fair parity price should be the minimum price during the transition period. I would also say that the price suggested should be maintained during the transition period.

4. 2. But I am afraid the definition given by the Committee of the transition is ambiguous and needs to be clarified. They have defined it as that during which the controls initiated during the war continue. This may be interpreted in any way one pleases. It is essential to be more precise if misunderstanding is to be avoided. I would prefer to say that the transition period will end when for two consecutive years the import into India of food-grains have been less than a million tons.

4.3. The reason for this suggestion is that the transition period should really mean that during which we must encourage production so as to become practically (if not entirely) self sufficient. Until this stage is reached, prices must be maintained at a suitable level, irrespective of what is decided about war-time controls. In practice the two ought to mean the same but it is best to be as precise as possible.

5. After the transition period is over, I am prepared to accept a reduction in the price not exceeding 12½% in any one year. But I must make it clear that in my opinion no further reduction should be permitted until "agricultural costs" have dropped by a corresponding amount.

6. In connection with rock bottom minimum, it is necesary to clear up a possible ambiguity. What I visualise is that the State should bring all its resources to bear to prevent a fall below this figure and must adjust its whole policy in respect of currency, trade, etc., to secure this end. Otherwise the proposed absolute minimum will have no meaning. I consider that this figure should not be less than Rs. 5/10/- per maund of wheat at Lyallpur.

7. In short I desire in this note to clarify certain points in the report and to say that in my opinion.—

(*a*) The price in the transition period should be Rs. 7/8/- minimum and Rs. 9/8/- maximum per maund of wheat at the wholesale market at Lyallpur, with all other prices fixed in conformity therewith.

(*b*) The transition period may be defined as ending when for two consecutive years the imports into India of food-grains have been less than one million tons.

(*c*) Thereafter prices may be adjusted on the basis of the parity of agricultural costs as proposed by the Committee, subject to the *proviso* that there should not be a reduction of more than 2 annas in the rupee in any one year.

(*d*) The State should bring *all* its resources to bear to prevent prices dropping below the rock bottom minimum, which should be Rs. 5/10/- for wheat at Lyallpur and in conformity therewith for other commodities, and

(*e*) If these prices are found to be high for certain classes of consumers, their emoluments should be adjusted to this price level and where necessary food should be given on a subsidised basis to such consumers.

P. M. KHAREGAT.
21-12-1946

Note by Sir Fazal I. Rahimtoola.

I support Sir Pheroze Kharegat's views and append my signature to his note.

FAZAL I. RAHIMTOOLA.

20-1-1947

Note by Rao Bahadur N. R. Samiappa Mudaliar.

I join with Sir Pheroze Kharegat in appending the note with this addition *viz.*, the price of paddy, at Tanjore in the Madras Presidency, in the transition period should be Rs. 5-12-0 minimum and Rs. 6-4-0 maximum, per imperial maund.

N. R. SAMIAPPA MUDALIAR.

26-1-1947

Note by Sir Roger Thomas.

I agree with Sir Pheroze Kharegat that the formula for the determination of guaranteed minimum prices as given in the Report needs clarification and amplification in its application to the transition (interim) period, that the concept of the transition period needs to be more specifically defined and that during the post-transition period the rock bottom prices should be at a level which will preserve the agricultural economy of India. These are all cardinal matters for which I pleaded at Sub-Committee stage but unanimity could not be reached.

If the agricultural prices policy to be adopted by Government cannot ensure that the fair agricultural prices in any year will not be inordinately whittled down, and cannot ensure that a catastrophic fall in agricultural prices reminiscent of the 1930's will be avoided at all costs in the interests of national economy then the recommendations of our Committee will have been in vain.

I therefore support the conclusions reached by Sir Pheroze Kharegat in para 7 of his Note but with one qualification, namely, that whereas during the post-transition period the rock bottom minimum price for wheat at Lyallpur should on present indications be Rs. 5/10 per maund, the economic conditions then prevailing may necessitate upward revision of this rock bottom price.

ROGER THOMAS.

18-1-1947

Note by Mr. B. N. Adarkar.

While I am in general agreement with the Report, I wish to emphasize the following points which appear to me to be of a somewhat fundamental character.

While I agree that the maintenance of remunerative prices should be the *objective* of State policy, I apprehend that the extension of a *guarantee* of a remunerative minimum price may involve the State into difficulties. In fixing minimum prices for each season, the State has to take into account a number of factors and when allowance is made for these, the resulting minimum price may not necessarily be remunerative in all seasons. I consider it important to emphasize this point, because otherwise there is a danger of certain interests insisting on minimum prices being fixed at an assumed remunerative level even when the administrative machinery is swamped with supplies.

Even when the State has ample resources to finance buffer stocks, it is unfair to the consumer to restrict market supplies below a certain minimum level merely for the sake of maintaining *remunerative* prices. Further, if a system of minimum prices is to be combined with consumption subsidies, a large part of the cost of such subsidies may easily fall on the agriculturists who form the majority of the population, and the benefit of minimum prices will to that extent be reduced.

I am also very sceptical of the idea of a rock bottom minimum below which prices are under no circumstances to be allowed to fall. Should circumstances develop in which the rock-bottom minimum is found to be untenable in the light of the other considerations which must govern the fixation of a minimum price, it will be very unfair to the consumer if the State goes on starving the market of its needs in order to support prices at the rock-bottom level. The intention presumably is that the State should adopt monetary and other measures to maintain market prices above the rock-bottom minimum. I do not think, however, that in the present state of our knowledge of the technique of monetary management, we could confidently hope to carry out an expansionist monetary policy, at all times, without producing adverse repercussions in other spheres. If, despite these considerations, the adoption of a rock-bottom minimum is considered essential for safeguarding the producer's interests, I would suggest that the consumer's interests be safeguarded by stipulating that the price stabilisation authority will never conduct its operations in such a way that market supplies are reduced below a minimum quantity (whether as a direct or an indirect consequence of its operations).

B. N. ADARKAR.
9-1-1947.

Supplementary Minute by Mr. V. Narahari Rao.

The Sub-Committee on agricultural prices was set up as the result of one of the recommendations of the Policy Committee on Agriculture, Forestry and Fisheries to the effect that Government should guarantee to producers an assured market at a remunerative price for agricultural produce. This recommendation has since been endorsed by the Government of India in their statement of agriculture and food policy in the following terms :—

"Such economic measures will be taken, *as may be practicable*, for the regulation of prices so as to ensure an adequate return to the producer and fair price to the consumer."

The Government of India propose to examine the recommendations of the Committee as soon as they have been received. It will be noticed that the acceptance by the Government of India is qualified by the practicability of the measures to be taken.

2. In dealing with this subject in the peculiar circumstance of India, I have felt it necessary to add this minute, in order that a carefully balanced perspective may be constantly kept in view, firstly as between developments in the fields of agriculture and other matters such as industries etc., and secondly as between the various measures calculated to secure the main objectives of agricultural development. Unless this is done, there is danger of lack of proper co-ordination of development policies and measures and of lopsided action being taken. I do not regard the terms of reference of the Sub-Committee as precluding a brief examination of all the important measure to be taken for raising the standard of living of India as a whole, and of the agriculturist in particular, and the relative position and importance of the regulation of prices of agricultural commodities amongst such measures. I have also felt it incumbent upon me to state my views frankly regarding the circumstances in which Government intervention by the guarantee of minimum prices, sales at prices subject to a maximum, would be necessary and justifiable, and the practical limitations of such a policy and measures, in order that we should clearly know beforehand the object to be aimed at in a practical way and design the measures accordingly.

3. In Indian conditions, the pressure of population on land and agriculture is already exceedingly heavy, over 85% of the population being dependant on agriculture. If the great objective of the day namely the development of an adequate standard of living for all classes is to be achieved, it is necessary to ensure that the efficiency of the agricultural industry is increased to the maximum extent possible and that it does not absorb a larger share of the population than it can profitably employ, the surplus being transferred to new and expanding industrial and other spheres of development. While accepting the importance of a satisfactory level of

agricultural prices and their stability in influencing investment in agriculture and, in a greater degree, in maintaining the security and prosperity of the agricultural classes, I wish to emphasise that there is no simple and direct way of achieving this, and the first essential is to remove the more serious evils and weaknesses of our agricultural economy. Relief of the pressure of population on land by the development of industries and other occupations is a matter of top-ranking importance as an aid to agricultural industry. This does not of course mean that delay in the reform of agriculture can be safely tolerated and permitted.

4. Within the field of agriculture itself, it is necessary to emphasise that the attainment of the two great objectives set before the country *viz.*, (*i*) a progressive improvement in the standard of living and (*ii*) the development of the food resources of the country to the fullest possible extent, depends on a number of complex and interdependent factors and not on the single factor of the price levels of agricultural commodities. The foremost of such of these measures should be the establishment of agriculture and land tenures on a scientific, efficient and socially just basis with a view to securing the maximum results with minimum costs and justice and fair play to the primary cultivator. In India unfortunately, agricultural methods are still very primitive and productivity is consequently very low and much leeway has yet to be made in various directions in order to modernise the business of agriculture. The evils of rack-renting, fragmentation of holdings, and practically uncontrolled exploitation of the primary cultivator and of the landless labourer by a host of parasites are amongst the most serious ones which call for urgent attention. Then again, agriculture is still largely in the grips of an intermediary money-lending class which needs to be brought under control and reformed. The agricultural industry should be thoroughly organised on business lines and on principles of large scale production and organisation *e.g.* co-operative farming and co-operative marketing and other aids on a country-wide scale. Grading of produce, regulation of markets and other measures should be taken. It is true that my colleagues on the Committee have stated that a policy of stabilisation of agricultural prices should go hand in hand with the above essential measures designed to improve agricultural economy in this country. But I am afraid they have not adequately emphasised the more serious evils and disabilities suffered by the agriculturist and the report tends to give the impression that those reforms occupy a somewhat secondary place as compared to the price fixation scheme. For my part, I hold that the eradication of the evils referred to by me offers more direct and surer benefits to the agricultural industry and should be given precedence over the proposal to establish an elaborate machinery for the stabilisation of prices, which, as I shall presently show, may not only prove impracticable financially and in other ways, but also fail to attain the object in view. In the Appendices to the Report, the policies of

price fixation and other ancillary measures adopted in three modern countries *viz.*, U.K., U.S.A., and Canada have been described at some length. It is necessary to bear in mind, however, that in those countries agricultural industry is extremely well-organised on business lines and on principles of large scale production aided by Co-operative Societies, market organisations and other modern adjuncts, and the evils of fragmentation and exploitation by parasitic classes are absent. Their circumstances are different from those in India. Moreover, some of those countries are most highly advanced in industrial development. In the U.K., it has to be noted that Government gave, soon after the first world war, promises of an assured market and guaranteed prices, but those promises had to be revoked later when the expenditure in which they involved the nation was made plain. It remains to be seen whether the more recent guarantees will be effective. In any case, the agricultural community in the U.K., forms a much smaller proportion of the nation than in India and the problem is therefore not of the same dimension.

As regards the U.S.A., Canada and Australia, these, unlike India, are countries with surplus food production. By regulating the price of the exportable surplus, these countries are in a position to evolve schemes which benefit the agriculturist and at the same time ensure the maintenance of lower internal prices for the benefit of the consumer.

5. Some of the main arguments in support of the proposals in the Report are that, in the absence of an adequate return on investment and an assured market for the produce, the agriculturist in India will not invest more money on agriculture with a view to adopting scientific methods and improvements, with the result that not only will there be no improvement in his standard of living, but there will also be no increase in the production of agricultural commodities so essential to the life of the country. Their remedy is therefore a State guarantee of a minimum price by a device which may cost the taxpayer a considerable sum of money, in order to provide an adequate net income for the agriculturist. It is over-looked that not only is the Indian peasant blissfully ignorant of increasing efficiency by modern scientific methods, but that so very little has been attempted hitherto to bring to him the necessary knowledge and the requisite practical assistance. Then again the income of the agriculturist does not depend on prices only, but on several other factors completely outside the pale of Price Policy advocated in the Report, such as the extent of land in the possession of the cultivator, the system of land tenure, the crops grown, the prices of raw materials, the efficiency of the cultivator and transport and marketing facilities, seed, manure etc. As indicated earlier, the entire structure and organisation of agriculture are fundamental factors influencing the income of the agriculturist. In the existing conditions in which the agriculturist is working in India, there is every reason for the

belief that the state of prosperity of the agricultural industry or of the agriculturist would have been infinitely superior, even in the absence of any special machinery for the guaranteed prices, if the remaining conditions had been different. It is necessary to take this fundamental factor into consideration before we decide as to what measures would be appropriate or adequate in a programme of action designed to secure an adequate level of income to the agriculturist, including price fixation. It is quite untrue and giving a wrong perspective to say that the remaining measures themselves depend on the stabilisation of agricultural prices at levels involving the grant of state subsidies. In the U.K., and the U.S.A., the policy of price fixation or stabilisation has been preceded and supported by a variety of facilitating circumstances which do not obtain in India. I am therefore strongly of opinion that first things must come first and immediate measures should be commenced for the eradication of evils from which the agriculturist suffers and for the provision of all the aids to scientific development. It is recognised that an immense field has to to be covered (some of the measures will require preliminary enquiries and studies) and a considerable time for their completion and fruition. This is all the more reason for initiating the measures with the least possible delay. Several of our problems of agriculture call for a vigorous simultaneous attack on all possible fronts. The Government of India are alive to this and have stated the various measures in their policy statement. Those measures may be broadly grouped as follows :—

A. Consolidation of holdings and prevention of fragmentation ; reform of land tenures so as to ensure a fair deal to actual cultivator and do away with his exploitation (*cf.* Floud Commission Report).

B. Co-operative farming, reform of marketing and provision of agricultural finance.

C. Extension of all forms of supply of water by construction of major and minor irrigation works *e.g.* dams, tanks, canals and wells.

D. Soil conservation ; provision of fertilisers and fullest use of all sources of manures ; production and distribution of improved seeds ; protection of crops against disease and pests ; development of dairy produce ; extension of scientific farming as the result of research, demonstration and intensive propaganda and advice by trained staff distributed throughout.

E. Rapid development of industry for relieving the pressure of population on agriculture.

For this purpose, a whole lot of ancillary measures will be required which are also enumerated in the Policy Statement of Government.

6. One of the chief anxieties of Government has been to improve the standard of living of the people and it goes without saying that in a country like India, where the nutritional standards are admittedly extremely low, food must be kept cheap for the consumer. The maintenance of cheap food has become a major item of international policy and will be reinforced by the necessity of keeping down the cost of living. The policy of high prices and better standards of nutrition are mutually contradictory.

7. The real solution of India's poverty is to increase production in every field and to ensure a socially just distribution, and no amount of manipulation of prices by itself will produce the millennium. To hope for prosperity without increasing production by every possible means is like expecting a consumptive to gain weight and health by consuming his own fat. Moreover agricultural prices cannot be dealt with in isolation from other prices as they are closely inter-connected with prices of industrial and other commodities and also with international prices which are dependent on world conditions. My colleagues have recognised the grave difficulties in arriving at the cost price of agricultural produce in order to enable us to fix a fair price based on the cost price. Pending the evolution of a satisfactory method of determining the cost of production they have recommended the fixation of agricultural prices on the basis of parity prevailing between the agricultural prices and agricultural costs during the quinquennium 1924-29, agricultural costs being represented by a suitable weighted index number of the price of cloth, kerosene, salt, gur, sweet oil, iron and steel, bullocks, manures etc. They have recognised, however, that circumstances may arise in which the guaranteed minimum price may have to be substantially below the fair parity price, for various reasons, including the financial resources avaiable to the State for purposes of enforcement. Thus the recommendations do not really guarantee a fair price and there is a great danger in creating false hopes in the agricultural community. The creation of false hopes which cannot be implemented is likely to have very dangerous repercussions on the agricultural community as a whole.

8. As I have said before, agricultural prices cannot be isolated from the general price structure. This system, if introduced, is bound to lead logically to its extension into all other spheres of production. In order to secure it against convulsive shocks through international causes, we shall be driven to maintain more or less a a closed economy or a highly totalitarian economy involving a degree of State control over many aspects of the national life that would be intolerable and impracticable.

9. I wish, however, to make it clear that I do not deny the great importance of securing a reasonable stability of agricultural prices or for that matter of all prices. But the means adopted for

the purpose should be as simple and effective as possible. India imports only a comparatively small fraction of the food she consumes, and in the past, the price of imports used to affect the internal price seriously. It was a case of the tail wagging the dog. Surely it should be possible to prevent violent fluctuations of internal prices through imports, by regulating the volume and the price of the imported foodstuffs. A factor which has been overlooked in the Report is that the agricultural community itself consumes the larger proportion of the foodstuffs it produces than the rest of the community. Higher agricultural prices do not necessarily benefit the agriculturist in so far as he himself is the consumer of his produce, but they place an intolerable burden on a smaller section of the population in order to subsidise the agriculturist. Moreover, in view of the extremely small individual holdings of land, a vast majority of cultivators will fail to derive any real benefit. It is only the large landed classes who produce substantial surpluses over and above their own consumption that will derive profits. I would, therefore, recommend that Government should concentrate their effort on devising direct methods of relief to the primary producers with small holdings by the grant of special concessions.

10. We are still passing through a period of shortages and heavy inflation and the real problem of the country to-day is to bring down agricultural prices and the cost of living. Otherwise we shall get caught in a rising spiral of high prices, higher cost of living, higher wages, strikes and fall in production. I therefore hold very strongly that it would be unwise to reach any hasty decisions on the machinery recommended in the body of the Report. The Government of India have already set up the Commodity Prices Board and it seems to me that this Board should be able to deal with agricultural prices also for the present. The International Food Board have also been considering the identical problem of stabilisation of agricultural prices and giving a fair deal to the cultivator and it would only be wise to await the results of their deliberations.

11. While emphatically dissenting from my colleagues regarding the State guaranteeing a minimum price, I would however strongly recommend that further consideration should be given to the necessity of maintaining some form of a Central reserve of wheat and rice in view of our recent experiences. It may be that when the world conditions return to normal channels of trade and commerce, we shall be able to supply all the wants of the country and the only regulation required by the State would be control over the prices of imported foodgrains. It is, however, doubtful how long this process may take and it is arguable that it would only be wise that India should have constantly a Central reserve in order to tide over emergencies which may cut off supplies. Once the principle of the Central Reserve is conceded, it will be necessary

to have a suitable organisation for the periodical turning over of the Central reserve. These turn-over operations of the organisation can be so devised as to save the agriculturist from the middleman's exploitation to a considerable extent and to give stability to agricultural prices. In fact, in the absence of a well organised agricultural co-operative marketing system throughout the country, the Central organisation for holding and turning over the Central Reserve can produce similar results. But the organisation should work on commercial principles on the basis of securing neither profit nor loss. For this purpose a machinery much simpler than that advocated in the Report will suffice. On no account should there be any question of a guarantee of a minimum price at the expense of the State.

12. I have not dilated upon the Constitutional difficulties in implementing the proposals contained in the main Report nor the fact that the existence of Indian States which follow their own policies adds immeasurably to the difficulties.

13. To sum up :—

(*i*) The real prosperity of the agriculturist is inseparable from the prosperity of the entire community and can be secured only by increasing production in every field and the removal of the many evils to which agriculture is now subject.

(*ii*) Price manipulation and guarantee in respect of agricultural commodities cannot be isolated and eventually it will lead to totalitarian economy and control over the entire economic life of the nation.

(*iii*) Stability of agricultural prices can be secured by simpler methods *e.g.* control over the volume and prices of imported foodstuffs, introduction of agricultural marketing and, as a measure in that direction, the setting up of an organisation for holding and turning over of a Central reserve of wheat and rice.

V. NARAHARI RAO.

4-3-1947

SUMMARY OF RECOMMENDATIONS

1. The State should

(i) guarantee minimum remunerative prices for selected agricultural commodities and ensure that the benefits thereof reach the small cultivators and agricultural labourers,

(ii) prevent the prices of such commodities from exceeding specified maxima, granting relief to persons with low incomes by subsidies on consumption,

(iii) undertake simultaneously a wide variety of other measures of agricultural and general economic development, accompanied by a complementary policy for maintaining adequate employment, incomes, and purchasing power.

2. Fair prices should be determined as under :

(i) When necessary data become available, the prices should cover the costs of production on representative holdings, including the payment of fair wages to agricultural labourers and leave the producer an income sufficient to maintain himself and his family at a standard of life equivalent to that enjoyed by other comparable classes of the population,

(ii) In the meanwhile, the prices should be based on the parity prevailing between agricultural prices and agricultural costs during the quinquennium 1924-29. Agricultural costs for this purpose should be represented by a suitably weighted index number of the prices of cloth, kerosene, salt, gur, sweet oil, iron and steel, bullocks, manures, oilcakes and fodder.

3. The prices so determined will be the fair parity prices. Market prices should be maintained within a range about the parity prices, with minimum prices at one end and maximum prices at the other.

4. The minimum prices should be determined as under :—

(i) In the interim period, the minimum prices should be not less than the fair parity prices.

(*ii*) In the post-interim period, the minimum prices may be below the fair parity prices to the extent necessary on account of the following factors :—

(*a*) the relation between agricultural prices and the general level of prices,

(*b*) the relation between price trends in India and abroad,

(*c*) any general assistance to agriculture given by the State through subsidies, remission of land revenue, etc.

(*d*) the financial resources available to the State for purposes of enforcement, and

(*e*) the policy of the State regarding reduction in the general level of prices ;

If a preliminary reduction in agricultural prices is considered necessary for this purpose, it should not exceed 12½% of the current fair parity prices in any one year.

There are two views in the Sub-committee in regard to the degree of allowance to be made on account of the above factors :—

(*a*) it should not lower the minimum prices below the fair parity prices by more than 12½% of the fair parity prices, and

(*b*) it should be left to the discretion of the price-fixing authority.

(*iii*) In the future, the minimum prices should under no circumstances be permitted to fall below a certain rock-bottom level, determined by the fixed elements in agricultural costs. There are two views in the Sub-committee in regard to the level of the rock-bottom minimum and the period of its operation :—

(*a*) It should be the average price in the main producing areas during the quinquennium 1924-25 to 1928-29 and should operate for the next five years, and

(*b*) it should be 25% above this average and should operate permanently.

(*iv*) In the future, any sudden collapse of industrial prices with a consequent parallel collapse in agricultural prices should be prevented by the State by all possible means.

5. The minimum prices should

(*i*) be calculated for the principal producing areas. The prices for other areas should be worked out so as to allow for the normal costs of transport, marketing, and other incidental charges,

(*ii*) be calculated on the basis of the fair average quality of the product, suitable differentials being allowed in respect of other grades and qualities,

(*iii*) be announced well in advance of sowing operations, and

(*iv*) remain unaltered during the crop year.

6. The maximum prices should be determined as under :—

(*i*) The maximum prices for each area should be based on the minimum prices for that area.

(*ii*) The maximum prices should be

(*a*) 25% higher than the minimum prices or alternatively,

(*b*) equivalent to the fair parity prices,

whichever are higher.

7. The maximum prices should

(*i*) be calculated on the basis of the fair average quality of the product, suitable differentials being allowed in respect of other grades and qualities,

(*ii*) be announced as soon as crop prospects are known or in any case not later than the beginning of the harvest, and

(*iii*) remain unaltered during the crop year.

8. The minimum and maximum prices should be enforced by the State by :

(*i*) a guarantee to purchase at the minimum prices at an adequate number of important market centres, all supplies offered,

(*ii*) an undertaking to provide supplies to the market by sales from Government stocks at maximum prices,

(*iii*) the building up of reserve stocks,

(*iv*) the regulation of foreign trade by means of tariffs, quotas and State trading, care being taken to ensure that the international obligations undertaken by the State are consistent with the requirements of price policy,

(*v*) the regulation of rents and the fixation of minimum wages,

(*vi*) the regulation of acreage under crops, and the enforcement of adequate standards of land management in special circumstances,

(*vii*) the requisitioning of stocks, the regulation of the distribution of supplies and statutory price control in emergencies.

9. The policy of price fixation should be extended to the major foodgrains, *viz.*, rice, wheat, jowar and bajra. This involves:

(*i*) the maintenance of a composite national reserve of foodgrains for enforcing prices and for meeting emergencies like famine; this should be exclusive of the quantity imported for meeting deficits in current requirements; there are two views in the Sub-committee in regard to the size of the reserve : (*a*) 1½ million tons and (*b*) 3 million tons,

(*ii*) the building up of reserve stocks from internal surpluses when possible, otherwise from imports,

(*iii*) the location of reserve stocks at suitable centres in the producing and consuming areas and at selected ports,

(*iv*) the construction of suitable storage godowns,

(*v*) arrangements for the turning over of the reserve stocks,

(vi) on the assumption of reserve stocks of 1½ million tons and storage accommodation for 2 million tons, the provision of financial resources of the order of :

(a) Rs 6.2 crores, on account of fixed capital for construction of storage godowns,

(b) Rs. 32 crores, on account of working capital for holding reserve stocks and carrying out purchase and sale operations,

(c) Rs. 2.67 crores on account of annual operating costs for meeting interest and depreciation charges, expenses of storage and staff, etc.

10. The policy of price fixation should also be extended to the major commercial crops, *viz.*, cotton, jute and sugarcane. The existing schemes of regulation should be adapted to the principles of policy recommended.

11. The policy of price fixation on an all-India basis should not be extended at present to products of animal husbandry. The prices of these products should be regulated on a local or regional basis by the Provincial and State Governments concerned. Early steps should be taken to provide adequate cold storage facilities and refrigerated transport for such products.

12. The administrative machinery should be constituted as under :

(i) an All-India Agricultural Prices Council should be set up on a purely voluntary basis and should consist of representatives of the Provinces and States at ministerial level; it should lay down the price policy, fix the minimum and maximum prices and enforce them.

It should have under it two bodies :

(a) a Price Determination Commission,

(b) a Commodity Corporation.

(ii) the Price Determination Commission should be a body of a semi-judicial nature, with three members ; it should determine minimum and maximum prices.

It should have under it a Bureau of Economics and Statistics for the collection, analysis and interpretation of necessary data.

(*iii*) The Commodity Corporation should be a business organisation, also with three members; it should enforce the minimum and maximum prices fixed.

It should have a Manager to administer its affairs under the supervision of the Board of Directors.

There should be a number of deputy managers, one for each important commodity or a group of commodities, one for each important function and one for each important region.

For each commodity or a group of commodities and for each function, an advisory committee consisting of representatives of the different interests concerned should be set up.

It should carry out its normal operations through trade agents or through the staff of Provincial and State Governments, or through its own staff, as may be found suitable;

It should operate on business lines and its expenses should be met by the participating Governments in an agreed proportion.

13. The Government should, without delay

(*i*) establish a bureau of Economics and Statistics for the collection of reliable data,

(*ii*) procure the necessary reserve stocks of the foodgrains selected for price fixation, *viz.*, rice, wheat, jowar, and bajra,

(*iii*) construct the necessary storage accommodation,

(*iv*) select in collaboration with Provinces and States suitabe trade or other agencies for carrying out purchase and sale operations, and

(*v*) appoint a small skeleton staff for the work connected with the setting up of the All-India Agricultural Prices Council.

14. Until the administrative machinery is established, the system of work developed by the different Governments should be continued with such modifications as may be necessary in the light of the principles recommended

15. The State should take ancillary measures :

(*i*) to improve the marketing of agricultural produce,

(*ii*) to regulate money-lending and improve rural credit,

(*iii*) to reform the land tenure system,

(*iv*) to secure an adequate minimum wage to the agricultural labourer,

(*v*) to ensure the maintenance of an adequate standard of management and utilization of land,

(*vi*) to execute works of agricultural improvement, supply agricultural requisites and provide technical advice,

(*vii*) to consolidate fragmented holdings and promote the establishment of economic holdings,

(*viii*) to extend education in rural areas,

(*ix*) to provide subsidized food distribution to low income groups and specially vulnerable classes, and

(*x*) to secure the co-operation of the people by constituting representative associations of different agricultural interests on a local basis.

APPENDICES

I TO VI

APPENDIX I.

State Aid to Agriculture in the U.S.A.

State aid in the U S.A.

1. The experience of the U.S.A. in respect of planned and co-ordinated measures of State assistance to agriculture is full of instructive lessons for India. Within the short span of the quarter of a century following the end of World War I, the U.S. Government have evolved highly original techniques of control of production, demand and prices, utilising the state apparatus to a large extent in regard to their formulation, but executing them through democratic organisations representative of the farmers themselves.

U. S. Agriculture 1866-1914.

2. The political climate of the U.S.A. has always been relatively free from prejudice against State direction of economic life, the country having been one of the earliest to foster its industries by a severely protective tariff, which had its origins in the financial exigencies of the Civil War. But the application of the principle of State direction to agriculture was rather late in taking shape. From the Civil War to the end of the 19th century, the country found an ever-expanding market for such of its crops as could not be absorbed by the rapidly expanding home population. Cotton, corn and wheat, the primary crops of the U.S.A. all felt the effects of the building of railways in the decade which followed the Civil War, as well as the steady but rapid fall in the cost of carrying grain across the Atlantic. These developments brought the European markets within the reach of the farmers in the inland states, and led to a stupendous growth in the total production of these crops, accompanied by a fall in the value per unit. This fall in final prices did not, however, affect the primary producer. The value of farm crops *on the farm* in inland states actually rose per unit in the 20 years preceding 1895, but owing to the fall in the cost of freight to the seaboard, the producers could place their produce on board ship at a lower price than before, though retaining a larger sum as their own share. After 1895, market prices themselves began to rise, and in fact farm prices rose more rapidly than the general price level. The increase was particularly marked in the case of cotton, the area under which did not show itself as capable of expansion as that under wheat.

World war I

3. At the outbreak of World War I, therefore, the U.S. farmer had behind him a history of nearly half a century of uninterrupted prosperity. The output of

cotton, corn and wheat all practically trebled between 1874 and 1914, and as we have seen above, prices to the producer showed rising trends. The war gave a further impetus to these tendencies. To give one example, the elimination of exports of wheat from Central Europe and Russia necessitated the opening up of new areas to meet the urgent war-time demand. During the war period an increase of 31 million acres occured in respect of the cultivated area in the U.S.A.

Collapse of prices, 1920.

4. The stage was thus set for the collapse of agricultural prices which supervened in the autumn of 1920. When Europe began to rebuild in the post-war period, the acres taken out of cultivation during the war were restored, and U.S. production became excessive in relation to the world's demand. This depressing effect on prices was accentuated by the reaction from the inflationary rise in the five and half preceding years. The index No. of prices received by the farmer (1909-14=100), which stood at 211 in 1920 fell to 142 in 1923, whereas the corresponding index of prices paid by the farmer fell from 201 to 152. Thus the relative position of the farmer deteriorated. Europe, suffering from curtailment of foreign lending and fiscal demoralization, could absorb American farm products only at very low prices. These conditions focussed the farmer's attention on the disparity between the income which he derived from the things he sold and his outlays for farm supplies and consumers' goods. Moreover, his fixed charges still remained high. The land boom of the war and immediate post-war years had left many farmers with a heavy mortgage indebtedness, mainly as a result of farm lands changing hands at inflated values. Taxes also continued to increase as public expenditure for hard-surfaced roads, consolidated high schools, and the like expanded during the 'twenties'.

Beginnings of State aid.

5. In the circumstances, American farmers naturally began to put all the blame for their ills on the low world prices for their export commodities and to view the export "surplus" as the major cause of unsatisfactory prices. There grew up a demand for relief measures. The National Agricultural Conference, called in 1922 at the instance of the Government, reported favouring the recognition of farm co-operative marketing associations and the stabilisation of prices through their operation. But between 1920 and 1929, the measures actually taken by the Government fell far short of the farmers' expectations. The revival of the War Finance Corporation to aid in the disposal of agricultural products, particularly

in the export market, the Capper-Volstead Act in aid of co-operative associations, increased agricultural tariffs, and the provision of additional rural credit agencies consequent on the passing of the Federal Intermediate Credit Act in 1923, were the only legislative gains which the farmers made during this period.

Farm organization activity.

6. There was, however, a remarkable increase in farm organization activity. The Patrons of Husbandry (Grange), the Farmers' Union, and a new organisation, the American Farm Bureau Federation, all began to put forward legislative remedies for the farmer's difficulties. Co-operative marketing organisations began to pay increasing attention to the possibilities of securing higher prices for farm products through monopolistic group marketing. Through the 'outlook' work of the Federal Department of Agriculture, begun in 1923, research and extention efforts were directed towards ascertaining and bringing home to individual farmers profitable adjustment in their farm enterprises and practices.

The Mcnary Haugen Bills.

7. A good deal of legislative discussion also centred round the series of McNary-Haugen bills which were introduced at various times during this period, but were never put into effect, having been defeated twice by vote and twice by presidential veto. These bills in effect proposed a two-price system, a higher one for the American, and a lower one for the foreign market. The loss on the stuff dumped abroad was to be paid by the farmers themselves by means of an equalization fee. To avoid possible overproduction, a revised version of the bill provided for a bounty to be paid on farm exports in the form of negotiable debentures which could be sold to importers and used by them to pay customs duties. Another modification was a suggestion to give every producer the right to sell a designated proportion of his crop in the domestic market while the balance had to be sold abroad. Transferable allotment rights given to each farmer, were to be sold to the processors, who were required to show such rights when the processed goods were sold in the domestic market. In this manner the domestic price was to be raised above the world price by the value of such rights, which was to equal the tariff on the given product.

Period of relative prosperity, 1925-29.

8. Although the McNary-Haugen bills never became law, they served to direct governmental thinking towards the possibility of influencing market prices by conscious action. But the agricultural problem some what lost its urgency towards the later 'twenties', because the production gradually adjusted itself and in 1925-29

income from agriculture as a whole was on a plane that compared favourably with that of the prosperous pre-war period, although taxes still remained high, land values continued to decline, and progress in other fields was much greater than in agriculture.

The Federal Farm Board.

9. In the meanwhile, the co-operative marketing organisations which had developed along commodity lines in the years following the war, found themselves unable to cope with the task of restoring farm prices, unless they were given federal recognition and support. This suggested a new and different attack on the surplus problem, and President Hoover lent his support to a farm relief plan proposing the creation of an administrative Board, equipped with a revolving fund of 500 million dollars, to enable producers to get a high degree of control of supplies through their co-operative organisations and to manipulate them with a view to maintaining remunerative prices. The result was the passing of the Agricultural Marketing Act in 1929. This Act was to "establish a Federal Farm Board to promote the effective merchandizing of agricultural commodities..... and to place agriculture on a basis of economic equality with other industries". Notwithstanding many previous unsuccessful attempts to hold up prices by storage and withholding of stocks, the Federal Farm Board launched an ambitious attempt to support prices in this manner. The method was to make loans to the co-operatives which would enable them to hold the commodities in storage until the market improved. But in the absence of effective control over production, which was left to the traditional level of advisory and educational activity developed under the aegis of the Federal Department of Agriculture and the State extension services, the largest stabilisation operations of the Board, those in respect of cotton and wheat, turned out to be failures. Attributing these failures to lack of control over production, the Board stated in its third report (December 1932) "that no measures for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more defenite control of production that has been achieved so far. For the great staple products the problem still remains for future solution".

The Hope Norbeck Bills. Onset of depression.

10. Production control was thus in the air. In fact, a plan based on this idea was embodied in the Hope-Norbeck Bills which were introduced into Congress in July, 1932. These proposed a tax on processors, the proceeds

to be paid as benefits to farmers conditional on their agreeing to restrict acreage or production by some stipulated amount. The bills did not get out of committee in either house, and a similar fate overtook their successor, the Jones Bill of 1932, also a production control measure on an allotment basis, which was not accepted by the Senate. All this legislative discussion took place against a background which soon assumed crisis dimensions. The onset of the Great Depression set the stage for a precipitate collapse of agricultural prices. The index of prices received by the farmer (1909-14=100) fell from 146 in 1929 to 65 in 1932. Since prices paid by the farmer fell only from 153 to 107 during the same period, rural distress assumed unprecedented dimensions. Throughout the winter of 1932, forced liquidations of agricultural assets were shaking the national credit structure. Wholesale foreclosures of farm mortgages, auctioning of chattels, and farm bankruptcies had become notorious. Several thousand banks in the rural areas had to close down, to the embarrassment of their city correspondents.

The A.A.A. of 1933.

11. It was against this background of distress, and in a mood of administering "first aid" to agriculture, that the AAA of 1933 took shape. The policy underlying the AAA was to restore farmers, as a class, to an income position as favourable as that which they had enjoyed in the years just preceding the outbreak of World War I. This policy was to be put into effect by the following measures :—

1. The enhancement of agricultural prices by widespread restraints on production and the removal of supplies from the market,
2. the enlargement of farmers' income through direct payments for participation in production control programmes,
3. the levying of excise taxes on processors of farm products, as a means of defraying the cost of 'adjustment operations', and
4. the regulation of marketing through voluntary agreements among processors and distributors or compulsory licensing to eliminate unfair practices or charges.

"Basic commodities"

12. The programme was to be applied to 'basic agricultural commodities', the initial list of which comprised wheat, cotton hogs, rice, tobacco and milk

and its products. The definition was extended to rye, flax, barley, grain sorghums, and to potatoes in 1935. Not all these commodities, however, were actually brought under control programmes.

The working of the programme.

13. The implementation of these programmes naturally involved a complete revolution in the role of the State in relation to agriculture. Even the formulation of the programmes called for a complicated analysis of the existing and prospective situation of each crop with reference to the economic position of producers as measured by the standard of purchasing power "parity", the determination of the rate of the processing tax which would be indicated in such a situation, the amount of reduction in production which would be called for, and distribution of acreage quotas down to the individual farmer. Moreover, since the price-raising effects of the plan were obviously dependent on the degree of participation secured from farmers, publicity material to give popular exposition of the details of the plan and how it was expected to effect participants had to prepared and disseminated through extensive "Sign-up" campaigns. Finally, the actual working of the plan had to be supervised through all its stages, beginning from the signing of a valid contract with the Secretary of Agriculture right up to the final payment.

Administrative machinery.

14. The administrative machinery which was evolved in response to these needs was a masterpiece of improvisation. Broadly speaking, a certain demarcation of functions was made as between the various state agencies dealing with agriculture. The Federal Department made itself responsible for the formulation of the programmes, the legal details of contracts, and the payments of the amounts due to farmers. The State extension services shouldered almost the entire burden of the publicity work; and the supervision of the actual working of the programme in the field was entrusted to decentralised committees of farmers, ranging from the community to the county and the State.

Personnel of the adjustment administration.

15. Unlike the Federal Farm Board, the Farm Credit Administration and the NRA, the Agricultural Adjustment Administration was set up as an integral part of the Department of Agriculture at Washington. Thus the Administration was to all extents and purposes coordinated with the existing bureaus of the Department. Its work naturally brought it into close touch with the Bureau of Agricultural Economics, but as the latter was

unable to furnish all the research and statistical material needed by the Adjustment Administration, a large staff of economists and statisticians was built up within the Administration itself. A large number of the key men were drawn from the Bureau of Agricultural Economics, the Federal Farm Board, and from state agricultural college and extension staffs. The so called "factory" which dealt with the routine work of examining and checking records of farmers' contracts and auditing and issuing payments under them constituted roughly half the total staff of 5000, which ran to about 6,500 in peak-load periods.

The role of State extension services.

16. Although the State Extension Services were the main agencies through which local experience was brought to bear in working out the details of the adjustment programmes, their activities were closely articulated with those of the Federal Extension Service, especially of its Division of Co-operative Extension. The Extension Services differed in their organization and administrative policies in accordance with the laws and political practices of the different States, and a certain amount of co-ordination had therefore to be done by the Federal Division of Co-operative Extension. The additional work thus imposed on the State Extension Services could not be carried out without federal aid, since during the depression state staff had been curtailed, and county representatives dropped in many instances. To enable these services to fulfil the responsibilities newly assigned to them, the Adjustment Administration diverted substantial sums to State Extension budgets—3.5 million dollars in 1933, 10.5 million in 1934 and 13.2 million in 1935.

The field organisation.

17. The field organisation consisted of a hierarchy of committees selected from among the participating farmers themselves. The major task of these committees was to check data furnished by individual contract signers as to their acreage and production in base years (from which the percentage reduction required had to be calculated) and to see that the reduction undertaken by each and the benefit payments claimed therefor were consistent with the overall county plan. State boards of review checked the quality of such work done in the several counties. The checking of compliance with the terms of the adjustment contracts was done by persons appointed by the commodity section of the Adjustment Administration in Washington from a list of names submitted by the county allotment committee. The expenses of the Farmers'

committees, which were known as Production Control Associations, were deducted from the benefit payments, and hence the Government did not have to bear any charges under this head.

Loan programme.

18. The organisations described thus far were all concerned with the production-control programmes of the AAA. But a combination of special circumstances existing in the autumn of 1933 forced the AAA into lending direct to farmers on the security of their cotton and corn. Cotton prices, which rose by about two-thirds from March to July, lost 30 percent of this gain by September. The South began to make vociferous demands to inflate the currency, fix the minimum price of cotton at 15 or 20 cents, and limit the 1934 crop to 9 million bales. A serious lack of current cash began to result in local disturbances. The Administration, which was already eager to speed the flow of cash to the countryside as a means of stimulating general recovery, yielded to the pressure and announced a programme of loans to farmers, first on cotton (September) and then on corn (October).

Commodity credit corporation established.

19. A legal basis for the new loans was found in the acts creating the Reconstruction Finance Corporation and the NRA. For the purpose of implementing the loan policy, a new agency, the Commodity Credit Corporation, was created under the laws of the State of Delaware in October, 1933. Its entire capital stock was subscribed by the Secretary of Agriculture and the Governor of the Farm Credit Administration, who held it jointly on behalf of the U.S. The subscription was paid from a presidential allocation of 3 million dollars from the appropriation of 100 million authorised by the N.I.R.A. and the Fourth Deficiency Act of 1933. From the outset the Commodity Credit Corporation furnished the great bulk of loan funds. The charter authority of the Corporation included, among other things, the authority to buy, sell, lend upon, and engage in other activities with respect to agricultural commodities and food.

Modus operandi of commodity loans.

20. Between 1933 and 1936, when the Supreme Court ruled that use made of the proceeds of a processing tax levied under the Agricultural Adjustment Act constituted "control of Agricultural production" and was therefore unconstitutional because it was an invasion of rights reserved to the States, the Adjustment Administration and the Commodity Credit Corporation pursued closely integrated policies. In the first instance, applicants for loans from the Commodity Credit Corporation had to make applications to the county AAA committees, who then

recommended the loan after making sure that storage facilities were available and the the commodity offered for loan met minimum standards of quality. The holding power conferred by the loans was an important aid to the price-raising effects of the adjustment programmes. In effect, all that the farmers had to do was to store their product and await developments, this essentially speculative operation being financed by the Government. Between the inception of the Commodity Credit Corporation and December 31, 1935, the face value of loans granted by the Corporation was as follows :—

(in 000 dollars)

Year.	*Cotton.*	*Corn.*
1933	99,498	120,207
1934	282,644	11,042
1935	5,777	13,934
TOTAL :	387,919	145,183

21. Of these loans, about 230 million dollars were repaid during the period, so that the net addition to the farmers' purchasing power was of the order of 300 million dollars.

Addition to purchasing power.

22. Rental and benefit payments under the AAA accounted for 1,108 million dollars during the same period. The total expenditure of the Adjustment Administration upto December 31, 1935, may be seen from the table appended below :—

Total cost of AAA.

(in 000 dollars)

General Administrative Expenses	78,198
Rental and Benefit Payments	1,108,323
Trust Fund Operations	15,891
Removal and Conservation of surplus	75,682
Drought relief, food conservation and disease eradication operations	157,720
TOTAL :	1,435,814

23. As against this expenditure, the total revenue collected from processing and related taxes amounted to 969 million dollars upto March 31, 1936. Thus the disbursement not covered by the proceeds of the taxes were of the order of 800 million dollars.

Revenue from processing and other taxes.

Benefits to the farmer.

24. The activities of the AAA undoubtedly resulted in striking gains to the farmers. The total cash income from agriculture increased each year from 1933 to 1935, as may be seen from following table :—

CASH INCOME FROM FARM PRODUCTION AND AAA PAYMENTS.

(in millions of dollars)

Year.	*Cash Income from Production.*	*AAA Payments.*	*Total Cash Income from Agriculture.*
1933	5131	278	5407
1934	5632	596	6228
1935	6703	498	7201

Source:—Nourse, Davis and Black "Three years of the AAA" p. 286).

Farm expenditure.

25. At the same time, farmer's expenditure increased at a very much lower rate than the increase in their total cash income, so that the actual improvement in the economic position of the farmers was very much greater than that indicated by the above table.

Price-recovery.

26. The increase in cash income was, of course, due to a large extent to the increase in price which occured during the period. Between 1933 and 1935, the index of prices received by the farmer (1909-14=100) increased from 70 to 108. Prices alone are, however, a rather unsatisfactory measure of recovery since they fail to allow for loss of output due to acreage curtailment and drought. Hence the improvement in incomes is a better criterion of the benefits conferred on the farmer by the AAA.

27. A further question is whether all the benefits really resulted from the activities of the AAA. Some critics have pointed out that the period under review coincided with drought conditions, and that prices would have risen in any case. It is not easy to disentagle the specific contribution of the AAA to the final results. Such an analysis involves, *inter alia* estimates of the amount of reduction in the quantity sold consequent on increased prices, the extent to which the processing tax was passed on to the consumer, and the effects of drought. Messrs Nourse, Davis and Black have, however attempted this task in respect of some crops in their "Three Years of the AAA," and their estimates are given below :—

BENEFIT PAYMENTS AND INCREASE IN TOTAL VALUE OF CROPS ATTRIBUTABLE TO THE AAA, 1933, TO 1935. (IN MILLIONS OF DOLLARS).

Commodity.	*Benefit Payments.*	*Increase in total value of crop attributable to AAA.*	*Total gain to producers.*
Wheat	326	30	356
Cotton	452	330	982
Tobacco	56	100 to 150	156 to 206
Corn Hogs.	520	199	321

Benefits and costs compared.

28. There is no doubt, therefore, that the activities of the AAA were of immense benefit to the U.S. farmer. It is also not open to question that these benefits were obtained at the cost of (*a*) the consumer, in so far as he paid the higher prices and had to curtail his intake, (*b*) the processors, whose scale of business was decreased, and (*c*) the general tax-payer, who had to bear the cost of the programme to the extent that it was not covered by the yield of the processing taxes. It is also possible to take the view that the benefits were purchased at too high a cost. But one thing is clear. In the absence of the AAA, farm incomes would have remained at low levels and would have constituted a heavy drag on the general economy. The flow of cash into agriculture undoubtedly quickened the pace of recovery in the U.S.

The Soil Conservation and Domestic Allotment Act, 1936.

29. The Supreme Court decision in 1936 did not result in any significant change in the agricultural policy of the Government. The Soil Conservation and Domestic Allotment Act was placed on the statute book in the same year. Under this Act, an open or unilateral offer on the part of the Secrerary of Agriculture replaced the contracts under the original adjustment programmes of 1933. Conditional payments replaced benefit payments, direct appropriations replaced processing taxes, and the emphasis was shifted from acreage control towards soil conservation and upbuilding. The only significance of this Act was that it functioned as an aid to continued acreage control. But limitation of crops was not successful. The index of physical production reached a record level in 1937. Even in the case of cotton, favourable yields made the quantity produced that year almost 19 million bales, also a record figure.

The AAA of 1938.

30. The continuation of the large "surpluses" led the U.S. Government to work out more comprehensive legislation for controlling them, which was embodied in

the AAA of 1938. In addition to the acreage control, idea inherited from the old AAA, the Act specifically outlined an "ever normal granary" programme, which was defined as "a definite system whereby supplies following drought years or other great calamity would be large enough to take care of the consumer, but under which the farmer would not be punished in years of favourable weather". In actual practice of course, requirements and surpluses could not be determined with absolute precision, hence calculations had to be made that were sufficiently accurate to bring the problem into focus and to form the basis of action programmes. The U.S. Agricultural Year Book of 1938 indicates that one approach that has been used is to calculate normal supplies by using past averages of supplies adjusted for current trends in consumption and demand, a method which has been used particularly for determining acreage and production goals for basic crops. Normal supplies are calculated by adding together the requirements of normal domestic consumption, normal exports and normal stocks. In the case of cotton, for example, a normal year's domestic consumption is the average annual quantity consumed in the U.S.A. during the 10 marketing years immediately preceding the marketing year in which such consumption is determined, adjusted for current trends, a normal year's exports are similarly computed and 40 percent of the normal consumption and exports is taken as normal carry-over. In other words buffer stocks are usually calculated on the basis of 40% of normal consumption and exports.

Marketing quotas.

31. Moreover, the marketing quota principle was made an integral part of the Act, the quotas being intended to be used to regulate supplies and to maintain remunerative prices.

Commodity credit corporation reorganised.

32. In order to implement the "ever-normal granary" programme, arrangements for loans had to be made more comprehensive. The obvious agency for this purpose was the Commodity Credit Corporation, which was reorganised by an Act of March 8, 1938. The borrowing powers of the Corporation were fixed at 500 million dollars. The Treasury was required to appraise the assets and liabilities of the Corporation as on March 31, every year. On the basis of this annual appraisal, the net worth of the Corporation was to be adjusted to the amount of its 100 million dollar capital by (1) payment to the Corporation by the Treasury of any capital impairment, or (2) payment by the Corporation into the Treasury of any excess net worth over its capital .

33. The AAA of 1938 provided for mandatory loans to be made by the Commodity Credit Corporation on specified commodities. The loans were envisaged mainly in respect of wheat, cotton, and corn, for which they were to be granted upto varying percentage of the "parity price", depending on the extent to which domestic consumption and export were expected to exceed their normal levels. Minimum rates were set at 50% of the respective parity prices. The loans were to be given to co-operators, a co-operator being defined (except in the case of corn) as "a producer on whose farm the acreage planted to the commodity or the crop with respect to which the loan is made does not exceed the farm acreage allotment for the commodity". The loans were to be on a non-recourse basis, and no producer was to be personally liable for any deficiency arising from the sale of the collateral securities any loan unless such a loan was obtained through fraudulent representations by him.

Expansion of loan programme.

34. From 1938 to the outbreak of the war with Japan in 1941, Government policy was directed towards perfecting the organisation thus set up. Attention was mainly devoted to stream-lining the decentralised local farm committees. The system, as it finally emerged, provided for a certain measure of Central Control at the top levels along with complete local freedom at the community stage. The direction of the entire organisation was vested in the Agricultural Adjustment Administrator in Washington. On his recommendation (in consultation with the State Extension Director and the officials of the principal farmers' organisations) the Secretary of Agriculture appointed State Commitees, each usually consisting of four members including always the State Extension Director. Below the State Committees came the County and the Community Committees, composed in each case of three persons elected from among the co-operating farmers. In all there grew up roughly 48 State Committees, 3,000 County Committees and 29,000 Community Committees. As in the original AAA, the salaries of Committeemen, which ranged from about 3 to 6 dollars per day, as well as the operating expenses of the Committees, were deducted from the funds made available for payment to farmers.

Administrative improvements.

35. The responsibilities of the Commodity Credit Corporation were also gradually increased. In 1939 it was made a part of the Department of Agriculture. In April 1941, the scope of loans was extended to include co-operators in the peanut programme. In May of the

Increased responsibilities of commodity credit corporation.

same year the Corporation was directed to make loans available on the 1941-46 crops of cotton, corn, wheat, rice, tobacco and peanuts. Loans were to be made to non-co-operators also, at the rate of 60% of the parity price. The rate for co-operators was raised to 85% of the parity price. To enable the Corporation to cope with these new commitments, its borrowing powers had already been enhanced to 900 million dollars in 1939 and 1,400 million in 1940.

Activities of commodity credit corporation, 1938-40

36. The functioning of the Commodity Credit Corporation between 1938 and 1940 may be seen from the following table :—

Loans distributed by the Commodity Credit Corporation and appropriations from and payments to the Treasury, 1938—1940 (in millions of dollars).

YEAR	Face amount of loans on			Appropriation from Treasury.	Payments to Treasury.
	Cotton	Corn	Wheat		
1938	205	131	49	94	—
1939	1	172	117	119	—
1940	153	63	201	—	44

Note :—Appropriations from and payments to the Treasury relate to the appraisal on March 31 of the respective years).

Crop yields improved.

37. Since the Soil Conservation Act of 1936 and the AAA of 1938 placed emphasis on conservation programme, it is interesting to note that on an average, in the period 1937 to 1942, crop yields per acre were 20.8% above the 1923-32 average.

Wartime needs.

38. The outbreak of the War brought about a complete reorientation of agricultural policy in the U.S. The changes thus necessitated may be briefly summarised as follows :—

1. The production of the certain crops essential to the war effort had to be increased,
2. the procurement of the agricultural commodities for the Allies had to be organised, and
3. domestic consumers had to be protected against undue increases in the prices of foodstuffs and processed foods.

The fulfilment of these aims naturally involved not only the Department of Agriculture, but also other agencies of the Government. This led to the creation of several high level bodies for the purpose of co-ordination. On June 5, 1942, a Food Requirements Committee was set up to control the production and allocation of all civilian and military food requirements. The Secretary of Agriculture became the Chairman of this centralized body, which had power to direct and handle the wartime food problems in close coordination with other complicated problems of war production. On June 6, 1942, the White House announced the appointment of a Combined Food Board, composed of the Secretary of Agriculture and the head of the British Food Mission. It was to effect planned and expeditious utilization of the food resources of the United Nations.

Reorganisation of agriculture department

39. The internal organisation of the Department of Agriculture also under-went a good deal of change during wartime. Beginning with December 1941 there were a number of mergers and reshufflings of the various Administrations. At one period (March 26, 1943 to June 30, 1945) the programme agencies of the Department were grouped into two administrative units, one responsible to the War Food Administrator and the other to the Secretary of Agriculture. The War Food Administration was, however, merged into the Department of Agriculture with effect from July 1, 1945.

Commodity credit corporation and AAA merged into production and marketing administration.

40. During all these changes, the Commodity Credit Corporation managed to retain its identity. But in August 1945, both the Commodity Credit Corporation and the Agricultual Adjustment Administration were consolidated (along with some related offices) into the Production and Marketing Administration. Within this administration, the adjustment programmes were to be formulated and supervised by commodity branches.

Guaranteed prices

41. It is, however, more important to examine how the objectives of wartime agricultural policy were achieved by these agencies. As we have stated before, the production of certain crops essential to the war effort had to be increased. The method used to evoke the desired production was to guarantee prices to farmers at not less than 90% of the parity level. This price support programme was put into practice in different ways designed to fit the perishability and uniformity of the commodity, as well as the respective marketing practices, which may briefly be summarised as follows :—

1. Non-recourse loans, used for grain and cotton which are easily stored on farms or in the condition in which they leave the farm;
2. Direct purchase from farmers, used mainly for a number of the field crops and for wool and dried fruits, all of which are also easily stored in the condition in which they leave the farm;
3. Purchase of graded or processed commodities from either dealers or processors at guaranteed prices, provided the dealer or processor bought the raw material from the farmer at support prices; and
4. Supplemental payments to farmers, used in instances where the Government did not like to interfere with or disturb normal marketing channels.

Purchase and re-sale operations of commodity credit corporation.

42. The major load in putting these programmes into effect was naturally carried by the Commodity Credit Corporation. As regards non-recourse loans, the method was already familiar to the Corporation. The other methods could be put into practice only with help from other agencies. It is not possible to describe here the manifold devices used in this connection, but it may be stated that in the main purchasing operations were conducted either by committeemen on the account of the Corporation, or by foreign buying agencies, the accounts in the latter case being adjusted under lease-lend. Undue increase in prices charged to the consumer were prevented by the purchase and re-sale operations of the Commodity Credit Corporation, which in a number of cases supported prices to farmers at one level and sold the produce to processors and distributors at a lower level, the Treasury absorbing the loss.

Loans given by commodity credit corporation, 1941-44.

43. All these activities necessitated further increases in the borrowing powers of the Commodity Credit Corporation, which were increased to 2,650 million dollars in 1941, to 3,000 million in 1943, and 4750 million in 1944. The loans distributed by the Corporation during the war years were as under :—

Year.	*Cotton.*	*Corn.*	*Wheat.*	*Others.*
1941	153	81	361	
1942	265	44	461	
1943	342	6	162	
	760	131	984	215

44. As for the purchase operations of the Commodity Credit Corporation a rough indicator is the level of stocks owned by it at any given moment of time. The position in this regard on June 30, 1944 was as under :— Cost of purchase and re-sale operations

Stocks Owned by the Commodity Credit Corporation
(As on June 30, 1944)

Commodity.	*Quantity.*	*Book Value* (in 000 dollars).
Wheat (000 bushels)	98,960	135,565
Corn (000 bushels)	1,951	—
Cotton (000 bales)	2,322	146,920
Tobacco (000 lbs.)	168,813	87,860

45. The wartime activities of the Commodity Credit Corporation undertaken in 1942, 1943 and 1944 were estimated to cost about one million dollars. Roughly half this amount was used for dairy feed and milk payments, about one-fourth was accounted for by losses on sales of feed wheat and the remainder was made up of losses in connection with oilseed crops, processed vegetables etc. Distribution of cost.

46. Although the cost of these undertakings has been substantial it is small when considered in relation to the total cost of the war or even to the total cost of producing food during the war. Moreover the degree of stability that has been maintained in the face of many obstacles compares very favourably with the rise that took place during the last War. The general wholesale price-level has risen only 37% since August 1939 as against the rise of more than 100% in the period of nearly equal length that marked the duration of the last war. The cost of living, which before October 1943, was rising by 3/4% every month, was for the whole year 1944, held without any change. Comparison of cost and gain.

47. Simultaneously with the operations of the Commodity Credit Corporation, the Adjustment Administration continued its policy of production control. The aim was to help the farm operator to scale his crop production upward or downward to meet national agricultural demands. The Administration was also in the best position to provide the machinery for making regional break-downs of the national goals set up for crops needed in greater quantity, and its allotments and marketing quotas prevented a wasteful expansion of competing but less essential crops. As before, the work in the field was carried out by the decentralised farmer-committees. The conservation work of the Administration was continued and Production control by AAA.

greater latitude was given to local committeemen in determining specifications for conservation practices and the size of payments farmers could earn by carrying them out. The results were encouraging, the money earned by farmers on this account increasing steadily year by year :—

Money Earned by Farmers on Conservation Practices, (in millions of dollars).

Year.	*Amount.*
1940	114
1941	122
1942	166
1943	213

Effects on crop yields

48. The combined effect of all these measures has been a significant increase in the output and yield per acre of crops. The following table shows the increases that have been achieved during the war years :—

Volume of Agricultural Production and Crop Yields per Acre, 1940-1944.

Year.	*Index of total volume of Agricultural Production* (*1923-32=100*).	*Index of crop yields per acre* (*1923-32=100*).
1940	112	120
1941	115	122
1942	126	136
1943	131	124
1944	133	130

Price guarantees given for post-war period.

49. What of the future ? With the end of the war, the problem of surpluses has again begun to exercise the minds of the U.S. Government. After the urgent needs of war-devastated countries have been met, it is likely that the problem may again become acute. But in the meantime, the Government have assured twenty farm commodities of price-supports in the present post-war period. Six basic crops, cotton, corn, tobacco, rice, wheat and peanuts have been assured of price support for full two years from January 1, following the date on which the President of Congress shall have proclaimed the hostilities to have ended. Fourteen other crops have also been assured of price-supports for at least two years after the war ends. The post-war commitments accepted by the Government are to support the prices of all these commodities at 90% of the parity.

50. That the U.S. Government means business is evident from the statement on post-war agricultural problems made by the Secretary of Agriculture, Mr. Claude R. Wickard, at a hearing of the House of Representatives' Special Committee on Post-War Economic Policy and Planning in August 1944. In this statement he made it clear that the "Ever normal Granary" idea should be expanded, both as a means of storing part of the yields of years of plenty against years of lower production, and as a means of stabilising the income of farmers. A farm family should enjoy a way of living comparable to that of a family of equal capacity and industry which derives its income from business or industry. Parity prices for farm products would be one possible index of whether this aim were achieved, parity income another. Prices and income-supporting programmes were also envisaged as a part of national farm policy.

U.S. Govt policy of stabilisation of farm incomes.

51. Price-supports are thus the pivot of post-war U.S. Agricultural Policy. Beginning with tentative attempts at a marketing control, agricultural policy in that country has evolved through the stages of stabilisation operations, production adjustment and non-recourse loans to the present full-fledged acceptance of the Government's duty to guarantee a fair return to the producer. It is also clear that what began in a half-apologetic way as market adjustment involving more or less self-financing arrangements has grown into a system of assistance to agriculture financed from the general exchequer.

Price supports the Pivot of Govt. Policy.

Appendix II.

State Aid to Agriculture in Canada.

Canadian economy: Importance of wheat.

1. State assistance to agriculture in Canada has been conditioned by the overwhelming importance of exports to the country's economy, and of wheat among those exports. It has been estimated by L. Rasminsky ('Anglo-American Trade Prospects', Economic Journal, June-September, 1945) that nearly one-third of Canada's annually paid out national income is derived from exports. Moreover, of Canda's exports in pre-war days, nearly 30 and 50 per cent went to the U.K. and U.S.A. respectively, but these constituted only 5 and 15 per cent of the total imports of those countries. Canada was thus in a very week bargaining position, especially as export surpluses were in many cases several times as large as domestic consumption. For instance, the country produced five times as much wheat as she consumed, and her exportable surplus was about 40 per cent of aggregate world exports. Nor was wheat the only field crop exported. Oats and barley accounted for small quantities. The exports of fruits, vegetables, fish and dairy products also amounted in value to roughly half that of the total exports of wheat.

World war I. Candian Wheat Board.

2. Prior to World War I, farmers usually sold their wheat either to the local representatives of the grain merchants or to the elevator companies, which re-sold the produce to the Winnipeg Exchange. This system was always suspect in the eyes of the farmers, who believed that they were being paid unfairly low prices by the trading interests. In 1917 the exigencies of war led to the establishment of the Board of Grain Supervisors, which was intended to function as an agency for the centralised selling of wheat to the Allied Governments. The Board was the intermediary between the Allied Governments and the Wheat Export Company, the latter being the buying agency. In 1919 the Government felt that the time had come to set up a body which would be able to deal with a situation in which neither centralised buying nor the pre-war type of open market existed. The Canadian Wheat Board was accordingly established by Order-in-Council on July 31, 1919. In contrast to the Board of Grain Supervisors, which paid a final price to the farmer once and for all, the Canadian Wheat Board gave a substantial first payment on delivery of the wheat to the local elevator, and further payments as the crop was sold, deducting the Boards' expenses. Since prices continued at high levels, farmers

were favourably disposed towards the Board. But its activities aroused the natural opposition of the Winnipeg Grain Merchants, and as a result of thier agitation, the Board was abolished in 1920.

The wheat pools 1924-28.

3. Farmers in general were, however, averse to returning to the old state of affairs, and in 1923 the Alberta Growers organised themselves into the Alberta Co-operative Wheat Producers Ltd., which was to carry on centralised selling operations on exactly the same lines as the defunct Wheat Board. In order to ensure some stability in the scale of operations, it was provided that members should pledge themselves to deliver their entire produce, for a period of five years, to the Co-operative Organisation. The example was followed by Manitoba and Sasketchawan in 1924, and in the same year the three provincial organisations combined together to form a Central Selling Agency called the Canadian Co-operative Wheat Producers Ltd., otherwise known as the Canadian Wheat Pool. During the next three years this organisation marketed approximately half the Canadian wheat crop, and worked smoothly and efficiently. Hence when the original five year contracts expired in 1928, they were almost all renewed, and the Pool appeared to be firmly established.

Disequilibrium in wheat market.

4. By 1928, however, the world wheat market was ripe for a collapse. Ever since the end of World War I, the wheat market was suffering from a fundamental disequilibrium. Production in North America, Australia and the Argentine was increasing in spite of falling prices, because of decreasing costs consequent mainly on the employment of the petrol engine. Meanwhile the European countries, the natural outlets for these increased supplies, were trying to maintain and even increase their domestic crops by high tariffs. The natural result was that the world's stocks of wheat were gradually increasing, and prices started falling steadily. In 1928 matters came to a head. There were bumper crops in the Argentine and Canada, and at the end of the year good quality milling wheat in Liverpool was fetching about 10 sh. a cwt. as compared with about 11 sh. 8d. the year before.

The wheat pool carries over large stocks 1929.

5. At this stage the Canadian Wheat Pool made a miscalculation. Sharing the general feeling of speculators that wheat prices had been declining long enough and that a rise was overdue, the Pool did not liquidate its holdings at lower prices, but carried over excessively

large stocks into the 1929-30 season. The example of the Pool was imitated by other speculators. The result was that on August 1, 1929, the world's carry-over was at a level nearly double that of two years before.

Wheat prices falling: Pool in difficulties.

6. In the autumn of 1929, the price of wheat fell to $1.50 per bushel, and the Pool fixed the first payments to growers at $1.00. Shortly afterwards, the price fell to $1.25, and the Pool was obliged to ask for assurances from the banks that they would not insist on the sale of its stocks in order to recover their loans. As the banks refused to give any such assurances, the Pool was compelled to ask the Provincial Governments to guarantee repayment of the loans. The Governments willingly gave the required guarantees, because they did not anticipate that prices would fall below $1.00 per bushel. Actually, however, prices crashed down further, and ultimately the receipts from the sale of the 1929 crop were less than the total advances paid to the members by about 23 millions. The loss was met by the Provincial Governments mainly by issuing state bonds to the banks on the security of mortgages on the elevators owned by the Pool, the latter being required to repay the face value of the bonds over a period of years.

Government control of wheat pool instituted, 1930.

7. With regard to the 1930-31 crop, the Pool made an initial advance first of $0.60 per bushel when the market-price was fluctuating around $1.00, and later of $0.55. But the price went on falling, and it became clear that a complete collapse would result if the Pool liquidated its holdings, leading in turn to severe repercussions, on the entire economic organisation of the country. The situation evidently called for drastic measures, and the Pool, backed by the three Provincial Governments, appealed to the Dominion Government for aid. The latter agreed to assist, on condition that they should have the right to appoint the General Manager of the Central Selling Agency, with virtually dictatorial powers over the sale of the crop. The Pool agreed to this condition, and in November, 1930, Mr. J.I.McFarland was appointed as General Manager.

Royal commission, 1931.

8. Mr. McFarland carried on the methods of the Pool, except for the discontinuance of direct export through its offices overseas. Incidentally, the whole system of marketing of wheat in Canada was examined in 1931 by a Royal Commission under the chairmanship of Sir Josiah Stamp, which pronounced in favour of the old speculative markets. But as this opinion created

considerable opposition among the farmers, the Agricultural Committee of the Canadian Parliament held another investigation, before which the farmers pressed the necessity for setting up a national wheat board similar to the Canadian Wheat Board of 1919-20. This plea was not accepted, and finally the pools cancelled the contracts of their members, thus leaving them free to market the 1931 crop through any agency they chose. The pools still remained as the owners and operators of the elevators, carrying on business on much the same lines as private elevator companies.

The working of government control 1931-35.

9. After 1931 the Central Selling Agency became in effect a Government Department for the liquidation of the stocks left over from the operations of the Pool. The Government also attempted to control the Winnipeg market through the Agency. The measures taken in this connection included the buying of " futures " at times when this course was deemed necessary for stabilising prices, and of course, spot buying and selling also. The objective was not only to avoid a fall in prices, but actually to force them up. In this endeavour, the Agency was largely successful, but only at considerable cost to the Government while surpluses kept mounting up. On August 1, 1935, the Canadian Government was holding nearly two-thirds of the total world carry-over of wheat.

The Canadian wheat board act, 1935.

10. The state of affairs described above led to a parliamentary inquiry, as a result of which the Canadian Wheat Board Act was passed in July, 1935. The Act provided for the appointment of a Board of three members with headquarters at Winnipeg. Provision was also made for the setting up of an Advisory Committee limited to a maximum of seven persons, of whom four were to be representatives of producers. The Board was empowered " to sell and dispose of from time to time all wheat which the Board may acquire, for such price as it may consider reasonable, with the object of promoting the sale and use of Canadian wheat in world markets". There were no compulsory provisions requiring the farmer to sell his wheat to the Board. On the other hand the Board was required to purchase all wheat offered to it at a fixed price, accompanied by the issue of participation certificates. These certificates entitled the producer to share in the equitable distribution of the profits arising out of the operation of the Board during the current year, and were non-transferable.

Price guarantees.

11. The Act itself did not lay down any basis for determining the fixed price, this being left to the judgement of the Board, subject to review by the Governor

General-in-Council. The price, which was a minimum, was to be fixed at the beginning of the crop-year, and to remain unchanged during that year, irrespective of variations in world prices. Except for changes in the personnel of the Board, and the abolition of the Advisory Council in December 1935, the Board functioned on the lines set out for it, right up to 1938-39. In that year the total cost to the Treasury of the operations of the Wheat Board was nearly $648 millions, besides $12 millions spent on the relief of totally indigent farmers.

Wheat board reorganised, 1939.

12. The Government therefore began to feel that some modifications in the working of the Board were necessary to ensure (*a*) that the cost to the Government would be at a more reasonable level, and (*b*) that the amount of benefit to the farmers would be related to their needs.

Benefit payments proposed.

13. To secure these objectives, the Minister of Agriculture proposed that benefit payments should be paid to farmers on an acreage basis in emergency years—1939 was regarded as an emergency year—the payments to vary inversely with the yield per acre of the town-ships in which the land was situated. The scheme may be briefly summarised as follows :—

Yield per acre of Township (in bushels)	*Proportion of cultivated land eligible for benefit.*	*Rate of benefit per acre.*	*Remarks.*
11-15	Half	1.00	Subject to deduction of 1/10th for every cent by which the price of wheat exceeded 60 cents per bushel from August to December. No payment to be made when the price reached 80 cents.
6-10	,,	2.00	
0-5	,,	2.50	

Exclusion of large scale farmers.

14. In case there was a total failure of crops in any district, farmers were to receive a payment of 2.50 per acre, regardless of whether it was an emergency year or not. Large-scale farmers were excluded from the benefits of the scheme o fixing a maximum limit of 200

acres to the acreage in respect of which any individual farmer could claim the acreage bonus. In order to reduce the burden on the treasury, the scheme was to be financed by a levy of 1% on the average price of all wheat passing through the terminal elevators.

Canadian wheat board act, 1939.

15. These proposals were embodied in the Canadian Wheat Board Act passed in 1939, with a few minor amendments. The basic price was raised from 60 to 70 cents for No. 1 Northern at Fort William/Port Arthur/Vancouver. A limit of 5,000 bushels was also fixed to the amount which the Board should purchase from any one producer in a given crop year.

World-war II.

16. The outbreak of the war necessitated further amendments. The Board was given power to regulate deliveries by producers at elevators and loading platforms, not only of wheat but of all types of grain. The maximum limit of 5000 bushels for deliveries to the Board was removed, and it was provided that storage payments could be made on farm-stored wheat at a rate not greater than the established country elevator tariff rate. The Board was also charged with the duty of collecting a levy not exceeding 15 cents per bushel on wheat utilised for human consumption, including imported wheat and wheat products. Finally, the Advisory Committee to assist the Board was revived, with eleven members as compared with the seven on the original Committee.

Activities of wheat board 1940-41.

17. In the crop-year 1940-41 the Wheat Board handled 395 million bushels of wheat, out of a total of 455 million which were marketed in Western Canada. The sum of $6.15 millions was paid during the year as payments for wheat stored on farms. As a number of difficulties arose during the season on account of the shortage of storage space, regulations were passed by Order-in-Council in August 1941, providing that no deliveries of any wheat, oats or barley should be made without first securing a permit from the Canadian Wheat Board. The Board then instituted a system, whereby only a certain quota per acre of wheat, oats or barley could be delivered by producers. The quota was raised gradually from 5 to 20 bushels per acre as the storage situation improved, and was finally abolished in April, 1941. The delivery quota system became a regular feature of the Board's activities, and was continued right through the war.

Production control.

18. The impact of the war made it necessary for the production of some crops to be expanded and for others

to be contracted. Even as early as 1940, the Government undertook a "Wheat Acreage Reduction Policy". In 1941 payments were made at $2.00 per acre on each acre diverted from wheat to coarse grains and grasses, as compared with the 1940 acreage. A higher payment of $4.00 per acre was made on the wheat acreage allowed to lie fallow. In 1942, the payments on the fallow were reduced to $2.00 per acre, the other payments remaining unchanged. In the same year, it was deemed necessary to increase the production of flax for munition purposes, and the Wheat Board was given complete control over the purchase and sale of flax-seed. The Board fixed the price for the 1943 crop of flax-seed at $2.25 per bushel. Similar authority was given to the Board in regard to the puchase of soyabeans, the prescribed price being $1.95 bushel

Establishment of commodity boards.

19. Another important war-time development, which in effect led to the maintenance of prices at stable levels, was the establishment of Commodity Boards like the Meat Board, the Dairy Products Board and the Special Products Board. These Boards were charged with the duty of supervising the purchase and shipment of various farm products under the bulk sales contracts entered into by the Canadian Government with the British Ministry of Food and other United Nations Organisations. These contracts related to pork products and beef, cheese and evaporated milk, eggs (dried and shell), dressed poultry, dried peas and beans, dehydrated vegetables, certain classes of seeds, and fibre-flax. The fact that the Procurement Boards were ready to purchase all contract goods of suitable grade in bulk lots naturally provided price support for these and similar products.

Export trade: Special provisions.

20. The war also introduced some complications with regard to the export trade. In some cases, as in the apple trade of Nova Scotia and British Columbia, export markets were disturbed seriously. With regard to this fruit, the growers were protected by minimum guarantee on that portion of the crop for which no good outlet was visible. If it became necessary to process the apples, the Government undertook to absorb the loss on products sold in this form. Difficulties also arose when feedgrains prices advanced sharply in 1943 in the U.S. to levels above the ceilings fixed in Canada, and the export of feedgrains became profitable. In order to capture the profits arising from this trade, the Canadian Federal Government established Equalization Funds in April 1943, and the Canadian Wheat Board was assigned the responsibility of administering them. Equalization

fees were levied on permits issued for the export of oats and barley, and were based on the difference between the Canadian price ceiling and the U.S. market prices. The revenue thus realised was distributed after the close of the crop year among all producers who marketed oats and barley during the period of functioning of the Fund.

Subsidies.

21. The Government also used the method of subsidies to even out the differences between the prices of farm products and to stimulate the production of commodities which were deemed essential for the war effort. Since this programme was conceived in the interests of consumers also, the subsidies were coupled with measures designed to reduce the prices of imported products. In the case of these imports the Government reduced import duties and also resorted to direct consumer subsidies. The programme was handled by a newly established Commodity Prices Stabilisation Corporation, which was wholly owned by the Crown and was directly responsible to the Minister of Finance and to the Wartime Prices and Trade Board. Subsidies were paid in two ways—(1) Sale of goods at below cost prices by the Corporation, and (2) direct payments to producers, importers and distributors. The total cost to the Government of the activities of the Corporation, from its inception upto December 31, 1944, is shown in the following table :—

Operations of the Commodity Prices Stabilization Corporation, Ltd.

December 1, 1941 to December 31, 1944. (in millions of Canadian dollars).

Item.	*Amount.*
Import Subsidies	99.4
Domestic Subsidies	100.8
Losses on Commodity Trading	25.4
Administrative Expenses	2.1
TOTAL :	227.7

(*Source* :—Report of the Wartime Prices and Trade Board, Canada, January 1, 1944 to December 31, 1944).

Share of agriculture in the subsidies.

22. Out of the domestic subsidies of $100.8 millions, agricultural products accounted for $64.24 millions, as may be seen from the following table :—

Subsidies or reimbursements of Domestic Agricultural Products.

(in millions of Canadian dollars).

Item.	*Amount.*
Butter.	12.86
Canned Fruits and Vegetables.	3.95
Corn.	0.05
Eggs, frozen.	0.23
Fruits, fresh and processed.	1.30
Feeds, fishmeal.	0.13
Jam and Jelly.	1.02
Meat.	0.41
Milk.	44.29
TOTAL :	64.24

Milk subsidy.

23. The largest single item was thus the expenditure in respect of milk, amounting to $44.29 millions, of which 38.46 million represented subsidies to consumers.

Agricultural price support act, 1944.

24. The most comprehensive measure of State assistance to agriculture in Canada, was, however, the passing of the Agricultural Prices Support Act in 1944. Under this Act, which is designed to guarantee minimum prices for farm products against a possible collapse of such prices after the war, a Board is to be set up, financed by $200 millions from the Federal Treasury, with the authority to purchase staple agricultural products, whenever such products cannot be sold on the general markets above certain "floor" prices which will be prescribed. No specific formula for determining these "floor" prices is laid down, this being left to the discretion of the Board, subject to a general obligation "to secure a fair relationship between the returns from agriculture and those from other occupations". A Board of three members assisted by an Advisory Committee, representing producers and trade interest, is to administer the Act. Two methods are prescribed for supporting prices—(1) the fixation of prices at which the Board will be prepared to purchase agricultural commodities and (2), an undertaking to make good the difference between the actual average price during a season, and the price which in the judgement of the Board will bring sufficient returns to the farmer.

25. In connection with this Act, the Minister of Agriculture explained that it was not intended to control production after the war by means of production or delivery quotas. However, the Act was envisaged as providing a mechanism whereby the production of some products may be decreased and of others increased by establishing less attractive floors for some products than for others.

Differential price-support policy.

26. The history of Agriculture in Canada thus affords instances of almost every kind of state assistance. The operations of the Canadian Wheat Board constitute a classic example of state bulk purchase and sale operations designed to protect the farmer from the incidence of unfair prices offered by grain traders. Experience led to this method being supplemented by outright payments on or acreage basis, related to the need of the producer as judged from the productive capacity of the land. These measures were extended to other crops than wheat during wartime, which also called forth various devices to capture a portion of the export profits for the benefit of the farmer. At the same time, the necessity for evoking the pattern of production dictated by war needs, combined with the objective of protecting the consumer against undue increases in the cost of living, led to the grant of generous subsidies both to producers and consumers. Finally, the most significant feature of the situation is that the Government has realised the supreme importance of protecting farmers against a post-war collapse of prices, and has set up a machinery, well in advance to prevent such a development. Canadian experience thus provides many types of price support measures which are well worth careful study.

Canadian agricultural policy very comprehensive.

APPENDIX III.

State Aid to Agriculture in the United Kingdom.

State aid not much favoured.

1. A study of British agricultural policy reveals that the idea of State aid has not found favour with the public until very recent times. Whereas American agriculturists behave as if their contribution to society entitles them to demand help from the general revenues as a matter of right, their British counterparts usually ask for such concessions in a half-apologetic manner, such requests being generally coupled with promises of increased efficiency. Moreover, Government aid to farming in Britain has uptill now been conceived of mainly as emergency relief, and has in most instances been a by-product of pressing war-needs.

Causes for laissez faire attitude.

2. The causes for this half-hearted attitude are grounded in the imperial position of Britain, as well as in her former status of international lender *par excellence*. From the repeal of the Corn Laws in 1846 till the Ottawa Agreements of 1932, Britain was open without restriction to the agricultural products of Empire and foreign countries. Britain could be paid back her foreign investments only if she would take payment at least partly in agricultural commodities. Again, the location of many international commodity markets in London meant that substantial sums could be earned by way of charges in connection with the transactions carried on there all of which went to swell Britain's 'invisible exports'. Moreover, to British manufacturing and commercial interests, cheap imported food, which enabled them to keep down the level of wages and improved their competitive position in foreign markets, *vis-a-vis* other nations with a low standard of living, appeared to be absolutely essential, even if it meant that British agriculture was ruined. Sir John Russell relates in his monograph on Rothamsted how at the beginning of the present century, when A. D. Hall, his predecessor at Rothamsted, approached the Board of Agriculture for a Government grant, it was refused, and the Secretary confided in Hall his view that agriculture in England was dead and it was the Board's business to bury it decently. This attitude was typical.

British agriculture, 1846-77

3. Even after the repeal of the Corn Laws in 1846, British agriculture continued to be relatively prosperous until 1877. Although in the period 1846-74 the price of wheat remained stationary while the price of other articles increased, the consumption of wheat increased enormously.

Messrs. Layton and Crowther in their "Study of Prices" estimate that the average annual consumption of the country increased from 14.0 million quarters in 1841-45 to 20.2 million quarters in 1871-75, an increase which was proportionately greater than the rise in population during the same period. Actually, the golden age of British farming began in 1843 with Lawes' invention of superphosphate and the manufacture of artificial fertilisers on a commercial scale. Imports of feeding stuffs like maize, beans and oilcakes, the extension of field drainage and the utilisation of machinery of all kinds like seed drills, reaping machines, chaffcutters and steam cultivators belong to this period. This prosperous era came to an end in 1877, when for the last time wheat prices stood at more than 50 sh. a quarter, until nearly forty years later prices again soared up with the outbreak of World War I in 1914.

Increased imports 1874-96.

4. The main factor which undermined this prosperity was the increased importation of grain from the U. S., and meat and cheese from Australia, New Zealand and the Argentine. The price of wheat was down to its lowest level of 22sh. 10d. per quarter in 1894, but it must be noted that industrial prices also participated in this fall. The increased volume of imports into the U. K. may be illustrated by the following table showing the average imports of wheat, barley, oats, beef and mutton in the first 3 years of each decade from 1881-83 to 1911-13 :—

(in millions of cwts.)

	Wheat.	*Barley.*	*Oats.*	*Beef.*	*Mutton.*
1881-83	79.1	13.9	13.0	3.0	0.7
1891-93	93.0	18.2	15.4	5.2	1.9
1901-03	108.6	24.6	18.3	7.4	4.0
1911-13	119.4	22.4	18.2	9.4	5.4

(*Source :* D. A. E. Harkness, "War and British Agriculture" p. 8

Falling prices.

5. The result was that the arable farmers of the Eastern and East Midland and Southern counties could no longer pay their way. The situation was worsened by a prolonged fall in the general level of prices. The Statist's annual index number of prices, which stood at 111 in 1873 declined almost continuously until it stood at 61 in 1896. Wages and rents were adjusted only partly to this fall, and the first shock of depression had to be taken by the farmer.

Minor boom 1896-1914.

6. From 1896 to the outbreak of World War I, there was a slight improvement in the position of the British farmer. Prices gradually rose during this period, and the Statist's index number stood at 85 in 1913. In general, livestock products (with the exception of wool) recovered appreciably in price. In 1913 the prices of beef, mutton, pork, bacon and butter were not significantly lower than forty years earlier. The decline in butter and bacon was less than five percent, and pork was actually slightly higher in price. This relatively better position of livestock products was but natural, since these could not be imported with such facility as foodgrains.

Change from corn production to live-stock farming.

7. British agriculture therefore turned gradually from corn production to livestock farming, and 'Up horn, down corn' became the motto. The increase in the live-stock population of the country can be seen from the table below :—

Livestock population, U. K. in 000 s

	1870-74	*1910-14*
Cattle	9,747	11,934
Sheep	33,052	29,241
Pigs	3,813	3,813

(*Source* : D. A. E. Harkness, War and British Agriculture, p. 12)

8. Thus cattle showed a substantial increase in numbers which more than made up for the fall in the sheep population. Pigs showed no change.

Decrease in area under cultivation

9. At the same time the area under cultivation decreased by 26%, as may be seen from the following table :—

	1874	*1914*
	(*Thousands of Acres*)	
Ploughed Area	17,178	12,670
Rotation Grass	6,285	6,744
Permanent Grass	23,680	27,350
Wheat	3,831	1,906
Oats	4,089	3,899
Barley	2,507	1,873
Potatoes	1,421	1,209

(*Source* ; D. A. E. Harkness, War and British Agriculture, p. 12)

It will be seen that grain-crops and potatoes all recorded falls, the area under wheat actually decreasing to less than half its former level.

Less labour employed.

10. The movement from corn to stocks also meant that less labour was employed. The numbers of males 10 years old and upwards employed in agriculture in Great Britain declined from 15,43,900 in 1871 to 14,29,500 in 1911.

World war I guaranteed prices.

11. At the beginning of World War I the significance of modern warfare and its urgent claim on home agriculture were not at first realised. In 1915 the Food Production Committee unanimously recommended that farmers should be guaranteed a minimum price of 45 sh. per quarter of wheat for a period of 5 years, but influenced by the apparently satisfactory supply position, the Government declined to accept this recommendation. But this complacent attitude changed as a result of the poor harvest of 1916, which coincided with a period of increased shipping difficulties. This led to the creation of a special Food Production Department in 1917, and compulsory powers under the Defence Regulations were invoked to secure an expansion in the tilled area. The total ploughed land of Great Britain and Northern Ireland increased from 10.9 million acres to 11.4 million acres between 1916 and 1917. This result was to some extent called forth by the decision of the Lloyd George Government to accede to the demands of farmers for a guaranteed price. In 1917 the Corn Production Act guaranteed prices for wheat and oats up to 1922. The same Act provided for a minimum wage-rate for agricultural labourers, and forbade increases of rent in response to the guaranteed prices. Actually none of these measures became necessary, since scarcity rapidly forced up both the price of wheat and the rate of wages. The guaranteed prices of wheat ranged betwen 45 sh. and 60 sh. per quarter, whereas the market price stood at over 70 sh. a quarter throughout the period 1917-21

The agriculture act, 1920.

12. In 1920 the Agriculture Act provided that the minimum prices should be 68 sh. per quarter of 504 lbs. for wheat and 46 sh. per quarter of 336 lbs. for oats. These figures related to 1919, and Commissioners were to be appointed to consider for subsequent years the percentage by which the cost of production of wheat and oats respectively had changed as compared with the standard years, and the minimum prices were to be adjusted accordingly.

Annulment of price-guarantees.

13. Early next year, however, a deflationary movement set in and the Government anticipated that they would not be able to implement these price-guarantees. A substantial sum of about £18 millions became due from Exchequer, and it was feared that their payment would impose undue strain on the Government's finance. The annulment of the guarantees was clearly indicated, and the farmers through their Union agreed to this course, on condition that a sum of £1 million was set aside for agricultural research, eduction and advisory services. The provisions with regard to guaranteed prices were therefore repealed in 1921. The whole episode proved how easily open to attack aid to farmers could be if it took the form of a grant that came up for annual review in Parliament as a lump sum on the Estimates. Such a grant was distasteful even to the Department of Agriculture because its estimates were swelled by a sum which was not spent on its own activities.

The return to laissez-faire, 1921-29.

14. There followed a decade during which agriculture was left unaided to weather the storm. Education and research were fostered, and some financial help was also extended by the complete derating of agricultural land in 1929. Tithes were converted into a fixed charge in 1925, and landowners were subjected to an amortisation charge of a little over 4½%, which would extinguish them in the year 2012. The Empire Marketing Board, established in 1926, carried on a campaign in favour of empire produce, which was of some indirect benefit to British producers, in so far as they had to compete with high-cost Empire countries rather than with low-cost foreign countries. But comprehensive schemes of assistance to agriculture, involving State finances to any significant extent, were definitely frowned upon by the Government. In the White Paper on Agricultural Policy published in the early part of 1926, subsidies were dismissed as entailing more cost than was justifiable on defence grounds. In their place, various palliatives were suggested, such as the provision of credit, the extension of small-holdings, the improvement of rural amenities, afforestation, the provision of Government funds for drainage, the assistance of "sound schemes" of co-operative marketing etc.

Trend towards livestock farming accentuated.

15. The laissez-faire policy of the Government accentuated the secular trend of British agriculture, *viz.* the transition from arable to livestock farming. During the decade 1920-29, the prices of livestock and livestock products fell to a lesser extent than the prices of cereal and farm crops, as may be seen from the following table :—

Percentage Increase Over Pre-war.

	Livestock and Products.	*Cereals & Farm Crops*
1920	192	185
1921	128	90
1922	76	49
1923	66	28
1924	63	54
1925	64	44
1926	58	34
1927	44	39
1928	51	34
1929	52	23

(*Source :* D. A. E. Harkness, War and British Agriculture, p.38).

Relative position of arable and livestock farming.

16. By 1923 the tillage area actually fell below the 1914 level. It is true that as time went on, the arable farmer was able to obtain his supplies of fertiliser at cheaper rates than the livestock producer obtained his feeding stuffs, but this was counter-balanced by the increase in the cost of labour. Wages showed steady increase, thanks to the operation of the Agricultural Wages (Regulation) Act of 1924. The increased wage-bill did not affect the livestock farmer to the same extent as the arable farmer, owing to the smaller employment of labour in stock farming as compared with crop production.

Improved efficiency of farming.

17. In the latter twenties the effects of falling prices were partly offset by an increase in the efficiency of British farming. D. A. E. Harkness has estimated (War and British Agriculture, p. 36) that between 1924-25 and 1930-31 the volume of agricultural output increased by over 8%, while the number of agricultural workers decreased by 7 to 8%. Moreover, agricultural prices fell relatively less than prices in general. The following table illustrates this trend :—

Index Numbers of Prices.

	Agricultural Commodities.	*Industrial Commodities.*
1924	100	100
1925	100	93
1926	93	87
1927	91	82

1928	91	81
1929	87	79
1930	76	70

(*Source* : Board of Trade Journal. Index Numbers have been converted to the base 1924=100).

Beginnings of active State assistance, 1929.

18. It was only gradually that Government policy veered round to the idea of active assistance to agriculture. The labour Cabinet of 1929-31 was responsible for two important measures. The first was the Land Utilization Act of 1929, which provided for the settlement of the unemployed on the land, and empowered the Minister of Agriculture and Fisheries to take over ownership of derelict land; but practically no action was taken on this Act. The other and more important enactment was the Agricultural Marketing Act of 1931, and enabling measure under which a number of Marketing Boards were subsequently established.

Marketing boards.

19. The Marketing Boards thus set up related to hops, milk, pigs and potatoes. In effect, these Boards were afforded a sheltered market for their activities by the imposition of suitable tariffs and quota regulations on competing foreign products. Within this market they functioned as organisations of producers which could to some extent raise the local price, in a few cases by regulation of domestic production as well. For instance, imports of foreign potatoes were regulated by a sliding scale of tariffs which began with a duty of 4 sh. 8d. per cwt. from the 1st November to the 30th June, and then merged into the duty on main crop of potatoes of £2 per ton during July-August and £1 per ton for the rest of the year. Imports from Eire were restricted to certain quotas. Similarly, there was a very high duty on foreign hops.

Production quotas.

20. The degree to which a given Marketing Board could raise the price of the product with which it was concerned naturally depended on the extent to which it could exercise control over the supply. In the case of hops, the Board functioned without friction because it had the power to allot a quota of production to each grower, and was the sole buyer of the produce at prices fixed before hand by itself. In the same way, the Potato Marketing Board licensed potato growers, limiting each to a definite acreage and checking extension or the entry of fresh growers by a charge of £5 per acre on all additions to the licensed quota.

21. Control of supply was not always possible. With regard to milk, for instance, it was obviously impossible to fix production-targets. Here the natural expedient was to manipulate sales in such a way as to obtain the highest net returns from a given distribution of market demand. The demand for liquid milk is partly for direct consumption and partly for the requirements of processing factories like those for making butter, cheese, condensed and dried milk. The Milk Marketing Board endeavoured to keep the price of liquid milk for direct consumption at a fairly high level, and sold the surplus to the processing factories at comparatively low prices. Even then the Government had to step in and provide a subsidy to raise the amount received by the producer on account of these sales to processing factories. The proportion of surplus to liquid milk was spread equally over all the producers, each of whom was paid for a certain proportion of his deliveries at liquid milk rates and for the balance at processed milk rates plus the subsidy. Such complicated machinery was, however, not required in all cases. To take one instance, hops represented a very small proportion of the selling price of beer, and the brewers (who were the only buyers) were willing to pay a reasonably high price for it.

Control of sales.

22. The difficulties confronting Marketing Boards which did not have an effective control over supply may be illustrated by the working of the Pig-and Bacon Marketing Boards. The scheme related only to pigs processed into bacon, so that pigs produced for other purposes were left uncontrolled. Moreover, even the demand of the bacon-curers was not effectively canalised, since they could buy pigs in the open market also. The Pig Marketing Board first tried to obtain the pigs required by the curers by contract, but failed to obtain the necessary number. The unsatisfactory functioning of the scheme led to the appointment of a Reorganisation Committee which reported in 1935. In accordance with its recommendations, a Bacon Development Committee was set up to control the policy of both the Marketing Boards. Finally, a Bacon Industry Act was passed in 1938. This Act laid down that the Bacon Development Board was to be supreme in all matters of policy. The curing establishments were to be rationalised, and the contract system was to be revived on a three-year basis, the price of pigs being linked to the prices of feeding stuffs. The scheme could not, however, be put into operation owing to the outbreak of the war.

The pig and bacon marketing boards.

Other measures of assistance. *(i) Tariffs.*

23. Although the original enabling measure was passed during the tenure of office of the Labour Government, the actual setting up of the Marketing Boards was done by its successor, the National Government. Within a few years the National Government also took steps to assist agriculture by tariffs, quotas and subsidies. Of these, the first two types of measures were resorted to partly in order to safeguard Britain's balance of payments. Even as early as December, 1931, the Horticultural Duties Act imposed heavy duties on the import of luxury fruits and vegetables during certain seasons of the year. In the course of the next year, the Import Duties Act was put into operation, an ad *valorem* duty of 10% being imposed on all imports subject to certain exceptions like, wheat, maize, meat etc. These exceptions naturally lessened the benefits which home producers could expect, and in any case the duties did not apply to imports from within the British Empire.

(ii) Quota restrictions

24. A more effective method of regulation of imports was by means of quota restrictions. We have already seen how such restrictions were imposed in respect of Irish potatoes. Similar measures were taken for limiting the imports of bacon and ham to a level such that total annual supplies would be estabilised at approximately 10¾ million cwts. Imports from overseas, which stood at 9.9 million cwts. in 1933, fell to 7.5 million cwts. in 1938. But the result of this policy was to raise prices, not only of the locally-produced bacon, but also of the imported varieties. In fact, foreign producers obtained a share of the benefits, because they knew the exact amount they could supply, and were able to pursue a price policy designed to obtain the best possible price for the quality of bacon which they were allowed to send to Britain.

(iii) Subsidies.

25. But by far the most important assistance to the farmers was made by way of straight forward subsidies. One example was the wheat subsidy provided for in the Wheat Act of 1932, a measure which also set up a mechanism for recovering the cost of the subsidy from the consumer. Under this Act all wheat of millable quality was guaranteed an average price of 10 sh. per cwt. and it was laid down that any difference between this price and the actual average price ruling on the open market should be made good to the producer by the Government. Such deficiency payments were to be paid only up to a maximum limit of 27 million cwts., a figure which was well above the production of wheat in the U. K. at that time.

This limit was raised to 36 million cwts. by the Agriculture Act of 1937 when production increased as a result of the operations of the subsidy. The scheme was financed by a levy imposed on all wheat flour sold by millers or importers of flour, the rate of which varied with the amount of deficiency payments due to farmers in any given year. Thus the more the production of wheat and the lower the price, the higher the quota payments on flour had to be fixed. In actual working the scheme did not impose much of a burden on the consumer because the total supplies of flour on which the levy was imposed were of the order of 82 to 84 million cwts., whereas deficiency payments, as we have seen, were limited to 36 million cwts.

26. Similar assistance was given to producers of oats and barley under the Agricultural Act of 1937. A standard price of 8 sh. per cwt. was established for oats, and deficiency payments were made to growers of oats whenever the average price fell below 7 sh. 7d. per cwt. In contrast to wheat, the deficiency payments were made on an acreage basis of 6 cwts. per acre, raised to 14 cwts. in 1939. The maximum acreage in respect of which deficiency payments could be made was limited to ten-elevenths of the area under oats in 1937. The amount which a particular grower could earn was also subject to a maximum of £1 per acre per annum. It was also provided that farmers could not obtain the oats and barley subsidies as well as deficiency payments under the Wheat Act. The financing of the oats and barley subsidies was by means of payments from the Exchequer, and consumers were therefore not directly affected.

27. In the years just before the outbreak of World War II, the payment of direct subsidies became the favourite method of assistance to agriculture. From September, 1934 onwards a subsidy of 5 sh. per cwt. for live animals was paid to producers of fat cattle in the United Kingdom at an annual cost of about £4 millions. The Agriculture Act of 1937 provided for the supply of lime and basic slag to farmers at cheap rates. Finally, as an incentive to the farmers to cultivate sub-marginal land, the Agricultural Development Act of 1939 empowered the Government to pay a subsidy of £2 per acre on land which was ploughed up after having been under grass for seven years.

Cost of State assistance.

28. The cost of all these measures of Government assistance is not easy to assess, especially in the case of tariffs and quotas. As an illustrative example, imports

of bacon and ham fell from 9.95 million cwts. in 1933 to 7.53 millions in 1938, while the number of pigs produced in Great Britain rose during the same period from 3.51 millions to 4.38 millions. It is not possible, however, to investigate the real burden on the consumer involved in these developments. It is also not possible to estimate the effects on consumption of the activities of the Marketing Boards. Some figures relating to the subsidies paid during the year 1938-39 are, however, available, and these are given below :—

State Assistance to Agriculture, 1938-39.
(in £ Millions).

Sugarbeet Subsidy		1.73
Sugarbeet Remission of Excise		1.52
Wheat Subsidy		9.29
Barley Subsidy	(*a*)	0.80
Oats Subsidy	(*a*)	2.32
Fat Cattle Subsidy	(*a*)	4.50
Milk Subsidy	(*b*)	1.56
Bacon Subsidy		0.15
Land Fertility Scheme	(*a*)	1.30
Ploughing up Subsidy	(*a*)	0.50
Drainage	(*a*)	0.40
Livestock Improvement		0.10
Rating Relief.		17.00
TOTAL :		41.17

(*a*) Approximations

(*b*) Includes £605,000 of payments towards cheap milk for schools etc.

(*Source* : Sir Daniel Hall, "Reconstruction and the Land", p. 42).

Shift to livestock production halted.

29. The net effect of all these measures was to halt the long-term shift from cereal to livestock production. The area under wheat rose from 1.25 million acres in 1931 to 1.93 million acres in 1938. The total area of corn crops remained more or less constant, because barley and oats both fell by substantial amounts. The ploughed area showed insignificant fluctuations round the figure of 9 million, which was only about 2 million acres less than the corresponding area in 1914. By and

large, therefore, the fall in cereal production was arrested. As for the livestock population, it showed a considerable increase as compared with 1914. Cattle increased from 7.9 millions in 1914 to 8.9 millions in 1939, cows and heifers from 3.2 to 3.9 millions and pigs showed the highest increase, from 2.9 millions to 4.4 millions.

World war II emphasis on guaranteed prices.

30. The outbreak of World War II led to one very important change in the methods used to assist British agriculture *viz.* the shift of emphasis from subsidies to guaranteed prices. The objectives were now to increase crop production and to provide from home production a greater proportion of the feeding stuffs required for livestock, thus reducing imports and saving valuable shipping space. To stimulate output, subsidies and high prices were paid, and most important of all, farmers were guaranteed a market for their products for the duration of the war and one year thereafter. All cattle, sheep, pigs and eggs were purchased by the Ministry of Food at fixed prices, announced well in advance, and graded according to quality. Prices for wheat were fixed and a market was guaranteed for all that was produced. As for potatoes, minimum and maximum prices were specified and the Government gave assurances that they would take steps to deal with any surplus crop left over at the end of the season. In the case of oats and barley, maximum prices were fixed, but without any assurance with regard to a market.

Import control.

31. These guarantees, if left without control, would have led to great increases in the cost of living to the consumer, which in turn would have been reflected in demands for higher wages. In order to prevent such a development, the Ministry of Food functioned as the sole importer of practically all foodstuffs and the purchaser of many farm products. The Ministry made bulk purchases abroad and sold the produce to consumers by averaging high-cost and low-cost supplies. The margins that could be added by the processors, wholesalers and retailers at various stages of marketing were also fixed, and the remuneration of importers and middlemen who acted as agents in the acquisition of supplies, and sometimes in distribution, was based largely on the pre-war level of commissions. If in the case of any commodity even these measures of control were not effective in assuring a level of prices fair to the consumer the increases in cost were absorbed by the Ministry and not passed on to the ultimate consumer.

Effect on prices and production

32. The combined result of all these measures was an increase in the price level of agricultural products by nearly 100 percent between 1939 and 1944. The Agricultural index for January 1939 (1927-29=100) was 95, while that for January 1944 was 189. Agricultural wages rose from an average minimum rate of 34 sh. 9d. per week in England and Wales in August 1939 to 65 sh. at the end of 1943—an increase of 87 percent. The total value of agricultural output (including the farmer's own consumption and subsidies) rose from £290 millions in 1938-39 to £530 millions in 1942-43.

Agricultural price.

33. The increase of farm prices was much greater than that of wholesale prices, which rose by only 69 percent during the war period. The increase in the cost of living was even smaller, and the Ministry of Labour Index registered a rise of only 30 percent between the 1st September, 1939 and the 1st September, 1944. But the smallest increase was in respect of food articles, the prices of which rose by only 22 percent. The gap between prices received by the farmer and prices paid by the consumer was made good by subsidies from the Exchequer, which amounted to a rate of £221 millions per annum by the spring of 1944.

Wartime profits of farmers.

34. There is no doubt that during the war substantial profits were made by farmers. In a speech in the House of Commons on the 26th January, Mr. R. S. Hudson, the Minister of Agriculture and Fisheries, estimated that in 1940-41, the value of the output of agriculture rose by £110 millions, compared with the pre-war level, the increase in costs during the same period being of the order of only £46 millions per annum. Mr. Hudson also stated that samples of farm accounts collected from all parts of the country showed "a steady but varying marked increase in farmers' returns, throughout the years of the war and that after making full allowance for the fact that the pre-war years showed profits which were far too low".

Achievements of British Agriculture, 1939 48.

35. All this was a small price to pay for the magnificent response of British agriculture to the needs of the hour. The overall increase in output in the U. K. during the war amounted to 70 percent measured in terms both of calories and of protein. By 1943, it was possible for the Government to maintain total food supplies at an adequate level, and simultaneously to cut down imports by one half. The following table shows the increased production of crops achieved during the war :—

Estimated Quantity of Principal Crops Harvested
(in thousand tons)

	Wheat	*Barley.*	*Oats.*	*Potatoes.*	*Sugar-beet.*	*Vegetable.*	*Fruit*
1936-38 (*Average*)	1651	765	1940	4873	2741	2384	455
1939	1645	892	2003	5216	3529	2428	836
1940	1641	1104	2892	6404	3176	2687	580
1941	2018	1144	3246	8010	3226	2974	326
1942	2567	1446	3553	9393	3924	3806	762
1943	3449	1641	3059	9822	3760	3197	705
Percentage Increase since 1936-38	109	115	58	102	37	34	55

(*Source:* "Statistics relating to the War Efforts of the U. K.", p. 17).

Reversal of pre-war trends.

36. It may be noted that these results involved a complete reversal of the pre-war movement from crop to livestock production. Between 1939 and 1944, the area under wheat increased by 82.9 percent, and that under barley by 95.5 percent, while oats showed an increase of 51.8 percent. The total arable land rose from 12.9 million acres in 1939 to 19.4 million acres in 1944, or by 50 percent. There was a corresponding reduction in the area under permanent grass, which fell from 18.8 million acres to 11.7 million acres. The cattle population was fairly well maintained, but sheep, pigs and poultry all declined in numbers.

Period of re-adjustment anticipated.

37. At the end of the war, therefore, fears were expressed that a difficult period of re-adjustment lay ahead of British agriculture. It was believed that the secular trend towards livestock production would re-assert itself and that foreign imports would again relegate crops to a subordinate place. Even the most ardent exponents of the farmers' point of view did not expect anything more than a continuance of the pre-war system of marketing boards, subsidies, tariffs and quotas.

Labour government's policy for agriculture.

38. Happily, such pessimistic forebadings have turned out to be mistaken. The Labour Government has put forward a comprehensive scheme of State assistance to agriculture, unparalleled in British annals. The Minister of Agriculture, Mr. Thomas Williams, disclosed in the House of Commons on November 16, 1945 the general principles of the Government's agricultural policy. He stated that the Government proposed to establish a

system of guaranteed prices and assured markets for milk, fat livestock, eggs, cereals, potatoes and sugarbeet. Prices for cereals and potatoes would be fixed well in advance of the sowing time. For fat livestock, milk and eggs, minimum prices will be known to farmers three to four years in advance. Notice of any quantitative limitation of the output was to be given 18 months before the harvest in the case of crops and at least two years in advance for fat livestock, milk and eggs. The actual methods for affording an assured market were to be worked out for each commodity in the light of the system to be adopted by the Government for its procurement, distribution and sale. Methods other than that of direct Government purchase (*e.g.* the deficiency payments under the Wheat Act) are not ruled out.

Efficiency to be exacted.

39. In return for the benefits thus conferred on farmers, the Government proposed to insist on increased efficiency and also to ensure that lands are not allowed to lie waste. This was to be achieved by making free technical advice and marketing facilities available to agriculturists and by giving them compulsory directions for cultivation. If these directions were not obeyed, it was proposed to take over such lands and to make the fullest productive use of them through the agency of a Commission set up specially for the purpose. Local bodies were to be required to assist in the execution of this policy and to provide the industry with leadership and guidance. For this purpose, it was proposed to set up in England and Wales County Committees similar to the existing County War Agricultural Executive Committees. These County Committees were to be appointed by the Minister of Agriculture partly from among those selected by different sections of the agricultural industry and partly from other sources. These Committees were expected mainly to promote technical efficiency, working for this purpose in close association with the National Advisory Service which it was intended to establish in England and Wales towards the end of 1946.

Price-guarantees the prime requisite.

40. British agriculture is thus assured of another period of prosperity. The Government of the day has at last grasped the essential fact, brought out so clearly during the war, that the prime requisite for evoking the level of production required by the country is the assurance of guaranteed prices and markets. At the same time, the provisions for more efficient farming ensure that farmers do not succumb to the temptation of merely benefiting from the price-guarantees and doing nothing to improve production.

APPENDIX IV.

State Aid to Agriculture in Australia.

Importance of wheat in Australian Agriculture.

1. State assistance to agriculture in Australia has been concerned mainly with wheat, owing to the overwhelming importance of that crop in the internal agricultural economy of the country as well as in the export trade. The first crop of wheat was harvested in Australia in 1789 and the country became self-sufficient in the early 'Sixties' of the last century. Since then production has increased steadily until the peak was reached in 1932-33, when Australia produced 214 million bushels of wheat (5.8 million tons) of which she exported 150 million bushels (4.0 million tons) *i.e.* a little over two-thirds of the total production. Wheat and wheat flour also make up a sizeable proportion of the value of total exports. Out of the export trade of £ 157.6 million in 1937-38, wheat and wheat flour accounted for £ 26.9 million. In respect of cultivated area also, the crop occupies a preponderant position, and during the last quarter of a century the wheat acreage has ranged around 13 million acres on an average, covering about 70% of the agricultural land in the country. The importance of the crop in the internal agricultural economy of Australia may be seen from the following table :—

GROSS VALUE OF

Year	Agricultural Production	Wheat	Ratio of wheat to agricultural production.
1937-38	93,229	37,000	30.9
1938-39	76,851	21,989	28.6
1939-40	95,784	38,775	30.4
1940-41	70,406	17,145	24.3
1941-42	94,451	30,764	32.5
1942-43	111,230	33,041	29.7

The value of wheat accounts for no less than 29.6% of the total value of agricultural production.

World War I.

2. Prior to World War I there was no system of active State assistance to wheat-growers in Australia. During that war however, the Commonwealth Government exercised powers obtained under the War Precautions Act for the purpose of establishing compulsory

*This account of State aid to agriculture in Australia relates purely to assistance given to the wheatgrowers. Although State assistance has been rendered to the wool and dairy industries also on an extensive scale, it was felt that the experience in regard to wheat in particular will be of special interest to India, and hence this account has been confined to that crop.

wheat pools. These pools were managed by State Boards on which originally there were representatives of the wheat-growers. Later they were given one representative on the Commonwealth Board and one on each of the State Boards. The pools operated from 1915-16 to 1921-22, giving good results and there was considerable agitation for their continuance after the war. But the Hughes Government desired that the trade should revert to previous channels and the compulsory pools were given up. In Queensland, however, a modified form of compulsory pooling, based on the vote of the growers was introduced by the Wheat Pool Act of 1921. The Victoria wheat-growers also operated a successful voluntary wheat pool which at one time handled 60% of the State's wheat.

Inter-war period.

3. With the cessation of the compulsory pools, the wheat industry was left unaided to weather the storm. Until 1927, however, the industry had a period of relative prosperity owing to high prices. This led to the conversion of pasture into wheat lands and to attempts in Western Australia to finance the growing of wheat in an area ill-suited for the crop. The onset of the Great Depression therefore found Australia in a somewhat vulnerable position, and the prices of wheat declined steadily as shown in the following table :—

Year.	*Average price per Bushel.*
1927	5 sh. 5 d.
1931	2 sh. 10 d.
1932	3 sh. 1 d.
1933	2 sh. 10 d.
1934	2 sh. 8 d.

During this period, however, there was actually an increase in the quantity produced owing to the general desire to compensate for low prices by greater production. The average acreage rose from 10.4 million in 1922-27 to 15.0 million in 1927-32 and the production increased during the same period from 134.9 million bushels to 161.8 million bushels.

Anti-depression measures

4. The steep fall in prices naturally led to a demand for action to maintain prices at a remunerative level. In 1930, therefore, the Commonwealth Government introduced a Wheat Marketing Act which provided for a guaranteed price of 4 sh. per bushel at country-sidings and for the setting up of an Australian Wheat Board to function on the lines of a compulsory pool. This measure was however defeated and instead was passed the

Wheat Advance Act in the same year which guaranteed a price of 3 sh. per bushel less freight and handling charges. The Act was not however implemented for want of funds.

5. The assistance rendered by the State to the wheat-grower during this period took the form of relief and bounty payments to those who were in adverse financial circumstances. The method was for the Commonwealth Government to give subsidies to the States for the purpose of providing assistance to their growers. The first occasion was in 1931 and a subsidy of 4½ d. per bushel was granted in respect of all wheat harvested during 1931-32 and sold before the end of the crop year 1932. Since the prices continued to be low in the year 1932-33, the Commonwealth Government granted a total sum of £ 2,000,000 to the various States for assistance to the wheat-growers for reducing the cost of production of wheat (including the cost of transport and marketing) and for providing for the needs of the individual wheat grower. The distribution of this grant was made by the respective States generally on the basis of acreage sown to wheat. Similarly in 1933-34, a sum of £ 3,000,000 was provided for distribution amongst the States to provide assistance to the wheat-growers who during the year ended 30th June, 1933, derived no taxable income, or having derived taxable income, produced evidence that there were circumstances which justified such assistance. Relief Payments.

6. The assistance rendered in the year 1934-35 was in accordance with the recommendations of the Royal Commission on Wheat, and took the following forms:—(*i*) a grant to each State sufficient to make payments of 3 sh. per acre sown with wheat for grain during the year 1934, (*ii*) a bounty of 3 d. per bushel on wheat harvested during the financial year and sold or delivered for sale on or before the 31st October, 1935, and (*iii*) direct payments to wheat-growers who were in adverse financial circumstances up to a total sum of £ 573,250.

7. From 1931 until 1933, the funds to meet wheat payments were provided from the general revenues. But in 1934, in accordance with the views of the Royal Commission on Wheat (1st Report, 1934), which recommended the transference of part of the burden to the shoulders of the consumers, a tax of 105 sh. per ton in 1933-34, and of 52½ sh. per ton in 1934-35 and 1935-36, was imposed on milled flour for the purpose of providing a portion of the revenue from which payments could be distributed.

8. The actual extent of assistance granted to the wheat-grower by way of relief and bounty payments up to 1934-35 may be seen from the following table :—

Amount paid to wheat-growers.	*Years.*	*Amount.*
		£.
Bounty.	1931-32.	3,429,314.
Relief.	1932-33.	2,000,000.
Relief.	1933-34.	3,053,000.
Bounty.	1934-35.)	1,462,414.
Special Relief.	1934-32.)	573,250.
Relief.	(1934-35.	2,004,944.
	(1935-36.	1,915,869.

It will be seen that an average sum of between £2-3 millions per year has been granted by way of relief to wheat-growers.

Minor recovery 1936-38.

9. The position eased a little after 1935-36 owing to the increased demand for wheat from China and Japan which more than compensated for the shirnkage in European demand. Prices started rising from 1935 onwards and the average price for 1937 was as high as 5 sh. 0 d. During 1936-37 and 1937-38 therefore, there was no need for any financial assistance to the wheat-growers from the Government of Australia and none was given.

Recurrence of low prices, 1938.

10. The year 1938-39 began badly for the wheat-grower. Prices suffered a disastrous decline at the end of 1938 to a point lower than during the worst period of the depression, (*viz.* 5 sh. 2 d.) and in July, 1939, they touched the bottom at 1 sh. 9 d. These fluctuations in prices led to immense suffering for the wheat-growers and it became clear that the industry was in desperate need of State assistance. A comprehensive attempt was therefore made by the Commonwealth Government in 1938 to give assistance to wheat-growers, and a number of Acts, the most important of which were the Wheat Industry Act and the Flour Tax Act, were passed in that year.

Proposals for price-stabilisation, 1938.

11. The main object of this legislation was the stabilisation of the internal price of wheat in Australia at a level corresponding to a price of 5 sh. 2 d. per bushel at sea-board. The essential pre-requisite for the success

of this policy was obviously the insulation of the domestic price-structure from international factors. This was to be achieved by imposing an adjustable tax on imports. By the Wheat Imports and Exports Act, if the price of imported flour was less than 5sh. 2d., an import duty equal to the difference between the home consumption price and the price of imported flour was to be levied, subject to a maximum of £ 7 10sh. per ton. The wheat Imports and Exports Act also provided that if the world price was higher than the domestic price of 5 sh. 2 d. per bushel, an export duty should be imposed, the rate of duty increasing in proportion to the difference between the two prices, subject to a maximum of 1 sh. per bushel. In addition, according to the provisions of the Flour (Wheat Industry Assistance) Assessment Act, 1938, a tax not exceeding £ 7. 10sh. per ton was to be imposed on all the flour either held in stock or manufactured in Australia. Out of the proceeds of all these taxes, a Wheat Industry Stabilisation Fund was to be created, from which grants were to be made to the States. The Fund was divided into three parts, *viz* :—

(*i*) *Wheat Industry Special Account.*—Out of the revenues, £500,000 in the first year and during the next four years such amount not exceeding £ 500,000 as determined by the Minister were to be utilised to constitute this Account. During the first year, the following payments were to be made to the States as financial assistance :

New South Wales	..	£ A 100,000.
Victoria	..	£ A 200,000.
South Australia	..	£ A 100,000.
Western Australia	..	£ A 100,000.
TOTAL :	..	£ A 500,000.

These sums were to be applied for the provision of relief to distressed wheat-growers in the respective States. In the next four years the Minister was to decide what amount should be paid to the States normally, on condition that the fund was applied for meeting the cost of transferring wheat farmers from land unsuitable for the economic production of wheat.

(*ii*) *Wheat Tax Account.*—All the money collected by way of taxes on wheat exported from Australia or on wheat produced and sold in Australia were accumulated in

this Account. If the price of wheat rose above 5 sh. 2 d. per bushel, the millers were prohibited from raising the prices of flour in consonance with the increased wheat prices, and in order to compensate them, assistance was to be given out of this Account, the actual rate of assistance being decided by the Minister.

(*iii*) Out of the remaining sum, such payments were to be made as were necessary to make certain refunds of the Flour Tax provided for in the Act and other special payments. After these deductions were made the remainder was to be allocated to the States to be distributed among wheat-growers in proportion to their production of wheat.

12. The principle underlying the measures reviewed above was that when wheat was below 5 sh. 2 d., the local consumers should subsidise the growers by paying a higher price for their bread, since the tax on flour levied on the millers out of which payments were to be made to the growers would be passed on to them ; on the other hand, when wheat was worth more than that figure, it was intended that the growers should subsidise the consumers, since the profits on the export market which governed the overall price of wheat were to be taxed to provide a fund for the relief of the millers. This scheme was however never actually put into operation because before steps could be taken to implement it, World War II broke out.

World war II.

13. When hostilities commenced in September, 1939, the wheat industry of Australia was experiencing a period of unduly low prices. The price had fallen to 2 sh. 1d. per bushel in August, 1939, even lower than the lowest monthly quotation in the depression period. In addition, there were difficulties of marketing and transport. There was a large accumulation of surplus stocks in the chief exporting countries and the natural disability arising out of Australia's remoteness from the main centre of consumption rendered the situation extremely difficult.

The Wheat marketing board.

14. In view of these circumstances, the Commonwealth Government under the Wheat Regulations constituted the Wheat Marketing Board on the 21st September, 1939, to acquire, with certain exceptions, all wheat held in Australia. The Board was empowered, subject to the directions of the Minister for Commerce, to purchase, sell or dispose of wheat or wheat products, manage and control all matters connected with the handling, storage,

protection, shipment etc. of wheat acquired, and such other matters necessary to give effect to the regulations under which it was created. The Board was composed of a Chairman, seven growers' representatives and one millers' Representative.

15. The Wheat Marketing Board succeeded in acquiring and disposing of almost the entire stocks of wheat in Australia as may be seen from the following table giving figures of total production and the quantities acquired by the Board :—

Wheat Acquired upto 1st July, 1944.

(000 bushels)

Period.	*Quantity Acquired.*	*Production.*
1938-39	17,840	155,369.
1939-40	195,445	210,487.
1940-41	63,659	82,233.
1941-42	153,968	166,713.
1942-43	142,742	155,728.
1943-44	94,890	109,559.

Out of the total quantity of 668,544,000 bushels acquired by the Board during the period 1938-39 to 1943-44, 175, 912,000 bushels were sold for export as wheat, 139,715,000 bushels for export as flour, 152,797,000 bushels as flour for local consumption and 78,786,000 bushels for other purposes.

16. The Wheat Acquisition Regulations provided that the Minister for Commerce and Agriculture should determine the compensation to be paid for wheat acquired. During the seasons 1939-40 to 1941-42 an initial payment of compensation was made as wheat was acquired and further payments were made as the proceeds of pool sales were gradually realised. In August, 1942, the Government gave approval to a proposal to guarantee to wheat groweres compensation at a fixed rate on a maximum of 3,000 bushels known as quota wheat, while on additional deliveries (nonquota wheat) compensation at a lower rate was to be paid as the wheat was acquired. A quota was allotted to each grower, and on the wheat delivered by him to the extent of his quota, the grower received the guaranteed payment. The quota allotted to the majority of wheat-growers was for 3,000 bushels, but in certain instances,

growers who operated under a share-farming agreement either as owners or as share-farmers, or who cultivated their lands under family arrangements, were granted quotas of less than 3,000 bushels. The following prices have been guaranteed in respect of quota and non-quota wheat since 1939-40 :—

Year.	*Guaranteed price.*
1939-40.	2 sh.-10½ d. less freight.
1940-41.	3 sh.-0 d.
1941-42. "	3 sh.-0 d.
1942-43.	Quota wheat 4sh-0d. Country sidings.
	Non-quota wheat 2sh.-0d. Country sindings.
1943-44.	Quota wheat 4sh.-0d. Country sidings.
	Non-quota wheat 2sh.-0d. Country sidings.
1944-45.	Quota wheat 4sh.-0d. Country sidings.
	Non-quota wheat 3sh.-0d. Country sidings.
1945-46.	4sh.-4d. Country sidings.

Since 1942-43 therefore, the wheat-grower has been guaranteed a price not less than 4sh. 0d. per bushel in respect of quota wheat.

17. The following table gives figures regarding the financial operations of the Australian Wheat Board :—

Australian Wheat Board : Financial Operations.

(in £ millions.)

	1939-40.	*1940-41.*	*1941-42.*	*1942-43.*	*1943-44.*
Paid to Growers.	31.35	11.07	25.94	25.82	17.39.
Paid as Freight.	3.78	1.02	3.03	2.37	0.31.
Expenses.	3.56	1.38	3.97	2.59	1.63.
Total payment.	38.69	13.65	32.94	30.78	19.33.

The largest item was naturally the amount paid to the growers against wheat acquired by the Board: and since this accounted for practically the whole crop, the total payments relate practically to the entire wheat production of Australia.

Continuance of relief payments.

18. It may be mentioned that the Government continued during the war to give substantial assistance to wheat-growers by way of relief payments in addition to the benefits conferred by the guaranteed price. The relief and payments made during the war were as under :—

Relief and Payments, 1939-40 to 1942-43.

Year.	*Amount.*
	£.
1939-40	2,486,067
1940-41	1,498,593
1940-41	970,000
1941-42	1,651,716
1941-42	15,623
1942-43	1,708,543

Thus relief continued to be granted practically on the pre-war scale.

19. With the successful experience of the Wheat Marketing Board during the war, the Australian Government has introduced two Bills with the object of stabilising the price of wheat at 5 sh. 2 d. per bushel. This price has been fixed mainly on the ground that it is expected to cover the cost of production of the average farmer and to leave him a reasonable margin of profit. The mechanism devised for implementing this price is almost the same as was proposed in earlier plans, particularly in the Acts of 1938. The Wheat Marketing Board will continue to acquire almost all the stocks as the only agency for marketing inside and outside Australia and will undertake to purchase wheat at 5 sh.-2 d. per bushel. The guarantee of this price-level is based on two factors, *viz*, (*a*) the continuance of the external price at 10 sh. per bushel, and (*b*) the creation of a Wheat Stabilisation Fund in order to support the guaranteed level. As long as the external price remains higher than the guaranteed price, the wheat growers will have to surrender 50% of the difference between the guaranteed price and the external price. Out of this contribution, a Wheat Stabilisation Fund will be created which will be utilised to maintain the price at the guaranteed level when the external price falls below that level. This

guarantee is to operate for 5 years but the plan may be reviewed and renewed before the end of the period. During this period, if the price falls and there is a run on the Fund leading to its exhaustion, the Fund will be reimbursed out of the general revenues. The 50% contribution from the growers is fixed for the first year only and in a higher external price-level continues to prevail, this percentage may be reduced in future.

20. The Australian Government realized that no plan for price-stabilisation can succeed without a certain degree of regulation of the production and supply of wheat. So far as supply is concerned the Wheat Marketing Board, as mentioned earlier is the monopoly procurer of wheat in Australia and it is to continue its operations in the same manner. For controlling production, a " Commonwealth Board " will be appointed consisting of a representative from each State together with a Chairman, the Director General of Agriculture and Executive Members chosen by the Commonwealth Government. The Board will recommend the total acreage to be sown each year and its distribution among the States. There will also be State Committees which will regulate the production in respective States by licensing the growers. While giving licences, the pre-war acreage cultivated by each applicant will be taken into account but no licence-holder will be allowed to grow more wheat and no person without licence will be permitted to sow wheat for grain. For other purposes, there is no restriction on the acreage.

21. The post-war wheat plan of Australia is based on the expectation that the external price-level will continue to be as high as 10 sh. per bushel, that Australia will be in a position to dispose of 140 million bushels annually and that the production can be planned so as to maintain this surplus. However, it has been made clear by the Minister in his speech at the time of introducing the second reading of the Bill that the powers acquired thereunder to control production are to be used to regulate acreage and not to restrict it. Stabilisation of prices will thus not mean curtailment of production and the plan only aims at taking away a part of the higher returns to the farmers in prosperous times so as to give it back to them in days of distress.

Lessons of Australian experience.

22. The above account of the evolution of State policy in Australia with regard to agriculture thus shows a gradual evolution from relief to guaranteed prices, and finally to a fully-worked out plan to stabilise the prices of wheat, utilising the resources of the wheat industry itself.

Appendix V.

Questionnaire Issued by the Prices Sub-Committee.

(1) It has been suggested that the aim of a policy of price fixation of agricultural produce should be to maintain prices at a level, which is fair to both the producer and the consumer. Do you agree with this view?

(2) Should there be one basic price for a product and adjustment made therein for different regions, on the basis of normal parities or should the price be different for different regions?

(3) How would you determine the fair price? How far and to what extent should the following factors be taken into account for the purpose?

(*a*) The cost of production—

how would you determine such costs, to enable policy to be concretely formulated? What elements should enter into cost? Given that the same product has a different cost in different parts of India (or even within the same Province), shall there be differential prices, or shall all producers be given enough to cover marginal costs of the most disadvantageously situated producer, or should the price cover the costs of the average producer? Shall cost of production be periodically re-assessed?

(*b*) The price level of industrial products—

what base period should be selected at which the ratio between agricultural prices and industrial prices were regarded as normal (*e. g.* the period before the onset of the Great Depression)? What industrial products should be taken into account? Should the prices of agricultural products like cotton, sugarcane, oilseeds etc. be determined in relation to the prices of the articles manufactured therefrom or should the prices of the manufactured articles be adjusted to the prices of agricultural products from which they are manufactured?

(*c*) The desirability of the maintenance of out put of agricultural produce or of effecting changes therein—

should this be construed as implying the same quantitative relationships between particular groups of products as that prevailing (i) before the war, (ii) during the war or (iii) a "target" relationship for the future? Or should the price be determined from season to season with a view to encourage or discourage production, as changing conditions may require from time to time?

(*d*) The desirability of maintianing an adequate standard of life for the cultivator and the landless labourer—

how should the standard be determined? In particular what items should be regarded as essential for an adequate standard of life and what should be their proportionate significance *i. e.* what weightage should be given to each?

(*e*) The prices of synthetic substitutes and competing products—

should the price of an agricultural product be determined in relation to the prices of the substitutes and competing products be adjusted to the price of the agricultural product?

(*f*) Prices at different stages of the marketing process—

should the price of an agricultural product at the primary stage be determined in relation to its prices at the subsequent stages, in the marketing process, including the retail stage, or should the retail prices and the prices at earlier stages be adjusted to the prices of the agricultural product at the primary stage?

(*g*) The incentive to effect agricultural improvements *e. g.* wells, anti-erosion measures, use of fertilizers etc. and to increase agricultural efficiency.

(*h*) The purchasing power of the consumers.

(4) Should the fair price be fixed at a point or should it be fixed within a range, with a minimum and a maximum at both ends?

(5) When should the fair price be announced—at sowing time, or after harvest? When should changes in prices be announced?

(6) For what period of time, should prices, once announced, remain fixed?

(7) Is it your experience that prices of groups of agricultural produce move together, so that fixing the prices of a few principal products would automatically lead to the gradual regulation of prices of others, by natural market forces? For what types of agricultural produce do you recommend that prices should be fixed?

(8) What administrative machinery do you recommend for determining fair prices? Do you agree with the view that this should be done by a central agency? If so, should the central agency be a Department of State or should it be a statutory body specially created for the purpose?

(9) What administrative machinery should be set up for the enforcement of prices? Should the machinery be central or provincial and should advisory bodies be attached to the administrative machinery? Or should there be a special Commodity Organisation established for the purpose and if so, on what lines?

(10) What measures would you advise for the enforcement of prices, as determined?

(*a*) should the State give an undertaking to buy at all times any surplus in the market, which cannot be disposed of at the determined prices? If not, what alternative measures would you recommend?

(*b*) would you recommend the building up of buffer stocks?

(*c*) what are the principles that should regulate sales from buffer stocks, within and outside the country, to make the price policy effective?

(*d*) should there be any system of monopoly purchase? If so, should this be done by guarantees to the trade or through a special commodity organisation or by direct State agency?

(*e*) should the State have the right to control the volume of output through crop-planning?

(*f*) if prices rise above the determined price, should the State lower or abolish import duties in order to encourage further supplies? If prices fall below the determined price, should the State raise or impose import duties or prohibit imports, in order to discourage supplies?

(*g*) should imports be a State monopoly, in order to implement the price policy?

(*h*) should the State have the right to prohibit exports in order to prevent a rise in prices above the determined level? What other alternatives would you suggest *e. g.*, subsidies?

(*i*) should exports be a State monopoly in order to implement price policy?

(11) How can the financial resources necessary to carry out the measures recommended be obtained and how should the cost be allocated?

(12) On what principles should the size of buffer stocks be determined in order to maintain prices and to tide over crop failures?

(13) What is your experience of price fixation policies during the last five years?

(14) How would you ensure an equitable distribution of the benefits of the price policy among the different agricultural classes *e. g.* tenants-at-will and labourers.

(15) What specific steps would you take to enforce a re-organisation of agriculture, in order to secure that full benefit accrues to the country from the contemplated expenditure on price policy?

APPENDIX VI.

The attendence of the Members of the Prices Sub-Committee at the different Meetings was as follows:—

First meeting held at New Delhi on the 9th and 10th March, 1945.

1. Sir V. T. Krishnamachari, K.C.S.I., K.C.I.E., (Chairman).
2. The Honourable MR. Hossain Imam.
3. Sir Fazal I. Rahimtoola, C.I.E. KT,
4. Rao Bahadur N. R. Samiappa Mudaliar, M.L.C
5. Dr. L. C. Jain.
6. Sir Roger Thomas, C.I.E., J.P.
7. Sir Pheroze Kharegat, C.I.E., I C.S.
8. Mr. V. Narahari Rao, C.S.I., C I.E.
9. Sir Theodore Gregory.
10. Dr. V. K. R. V. Rao.
11. Mr. C. N. Vakil.
12. Dr. B. K. Madan.

Second meeting held at Bombay on the 7th and 8th May, 1945.

1. Sir Pheroze Kharegat, C.I.E., I.C.S. (in the chair)
2. The Honourable Mr. Hossain Imam.
3. Sir Fazal I. Rahimtoola, C I.E., Kt.
4. Dr. L. C. Jain.
5. Mr. V. Narahari Roa, C.S.I., C.I.E.
6. Dr. V. K. R. V. Rao.
7. Mr. C. N. Vakil.
8. Dr. B. K. Madan.
9. Sir R. G. Allan.

Third meeting held at New Delhi on the 17th and 18th September, 1945.

1. Sir V. T. Krishnamachari, K.C.S.I., K.C.I.E. (Chairman).
2. The Honourable Mr. Hossain Imam.

3. Sir Fazal I. Rahimtoola, C.I.E., Kt.
4. Dr. L. C. Jain.
5. Sir Pheroze Kharegat, C.I.E., I.C.S.,
6. Khan Bahadur M.A. Momin.
7. Sir Theodore Gregory,
8. Mr. V. Narahari Rao, C.S.I., C.I.E.
9. Dr. V. K. R. V. Rao.
10. Mr. C. N. Vakil.

Fourth meeting held at Bombay on the 25th to the 30th May, 1946.

1. Sir V. T. Krishnamachari, K.C.S.I., K.C.I.E. (Chairman).
2. The Honourable Mr. Hossain Imam.
3. Sir Fazal I. Rahimtoola, C.I.E., Kt.
4. Sir Roger Thomas, C.I.E., J.P.
5. Sir Pheroze Kharegat, C.I.E., I.C.S.
6. Mr. V. Narahari Rao, C.S.I., C.I.E.
7. Mr. N. G. Abhyankar.
8. Dr. B. K. Madan.

Fifth meeting held at Jaipur from the 22nd to 25th October, 1946.

1. Sir V. T. Krishnamachari, K.C.S.I., K.C.I.E. (Chairman).
2. The Honourable Mr. Hossain Imam.
3. Sir Roger Thomas, C.I.E., J.P.
4. Sir Pheroze Kharegat, C.I.E., I.C.S.
5. Mr. V. Narahari Rao, C.S.I., C.I.E.
6. Mr. N. G. Abhyankar.

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